S. HRG. 100-809 PT. 1

Senate Hearings

Before the Committee on Appropriations

Foreign Assistance and Related Programs Appropriations

Fiscal Year 1989

100th CONGRESS, SECOND SESSION

H.R. 4637

PART 1 (Pages 1-387)
AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF STATE
DEPARTMENT OF THE TREASURY

S181-11

S. Hrg. 100-809 Pt. 1

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1989

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

H.R. 4637

AN ACT MAKING APPROPRIATIONS FOR FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1989, AND FOR OTHER PURPOSES

PART 1 (Pages 1–387)

AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF STATE
DEPARTMENT OF THE TREASURY

Printed for the use of the Committee on Appropriations

U.S. GOVERNMENT PRINTING OFFICE
85–522 WASHINGTON : 1988

S181-11

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CONTENTS

WEDNESDAY, MARCH 30, 1988

Page

DEPARTMENT OF THE TREASURY:
Secretary of Treasury................................ 1

TUESDAY, APRIL 12, 1988

DEPARTMENT OF THE TREASURY:
Assistant Secretary for Developing Nations........... 75

THURSDAY, APRIL 14, 1988

DEPARTMENT OF STATE:
Deputy Assistant Secretary...........................163

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1989

WEDNESDAY, MARCH 30, 1988

U.S. Senate,
Subcommittee of the Committee on Appropriations,
Washington, DC.

The subcommittee met at 10:07 a.m., in room S–128, the Capitol. Hon. Daniel K. Inouye (chairman) presiding.

Present: Senators Inouye, DeConcini, Lautenberg, D'Amato, Specter, and Nickles.

DEPARTMENT OF THE TREASURY

STATEMENT OF HON. JAMES A. BAKER, III, SECRETARY OF THE TREASURY

ACCOMPANIED BY JAMES W. CONROW, DEPUTY ASSISTANT SECRETARY FOR DEVELOPING NATIONS

Title I—Multilateral Economic Assistance

OPENING STATEMENT OF SENATOR INOUYE

Senator Inouye. The subcommittee will please come to order.

This morning the subcommittee begins its hearings on the President's request for fiscal year 1989 funding of foreign operations.

As we look to the year ahead, we expect to follow a schedule which is somewhat accelerated. We expect to conclude our hearings on June 16. It would then be my intention to schedule our subcommittee markup on June 21, with full committee consideration on June 23, and floor action to be scheduled as soon thereafter as possible.

Current information suggests that the House will complete it's markup sessions and take a bill to the floor by May 26. It is my hope that this schedule will allow the enactment of a separate fiscal year 1989 Foreign Operations Appropriations Act by July 15. We will not have a continuing resolution: we will have a separate bill, and we will do our part to achieve that objective.

This does not mean that the subcommittee will rush through without a full examination of the President's request. Each Member will have an opportunity to examine the President's budget and to determine what we will recommend for funding. But we will need the full cooperation of our membership if we are to reach our objectives.

Accordingly, we will do our level best to adhere to the hearing and markup schedule the subcommittee has set forth, and I must ask Members who have additional questions to submit for the record to provide copies to the subcommittee within 24 hours after the conclusion of the hearing. I must ask the departments and agencies responsible to respond to these questions and to return the hearing transcripts within 10 working days after the questions and transcripts are made available to them.

HEARING PROCEDURE

As was the case last year, the Chair will recognize Members in the order in which they arrive at the hearing without regard to party affiliation. Priority recognition will, of course, be given to the Chairman and Ranking Minority Member of the full committee and the subcommittee's Ranking Minority Member.

When Cabinet level officials are appearing before the subcommittee, we will use a timing device and limit each member's round of questioning to 10 minutes.

Now, this morning we are pleased to have as our lead witness the Honorable James A. Baker, the Secretary of the Treasury of the United States.

Mr. Secretary, we welcome you, sir.

Secretary BAKER. Thank you, sir.

Senator INOUYE. In a few minutes we will give you an opportunity to summarize your prepared remarks, but first, I wish to address a matter which is not in your prepared testimony.

SUBCOMMITTEE ALLIANCE

Mr. Secretary, over the past 7 years, when the Reagan administration looked to the Hill for cooperation, it usually looked to this subcommittee. Over the past 7 years, when the Reagan administration looked to the Hill for action on legislation necessary to the successful conduct of American foreign policy, it looked to this subcommittee.

If I may say so, both when he was Chairman of the subcommittee, and over the past year after my return as Chairman, Senator Kasten and I have forged a remarkable alliance which has enabled the subcommittee to be at the center. Together we have achieved what I would consider great success. We have looked not to our individual political advantage but to the national interest, and I think we successfully set aside partisanship.

We have each been criticized by some of our colleagues for doing so, but we have worked in tandem to ensure the enactment of necessary legislation and the appropriation of necessary funding to keep our Nation's security assistance program sound and our Nation's development and humanitarian assistance programs generous. Throughout, when the chips were down, when all else had failed, the administration turned to us, and I believe we came through.

In your area of responsibility, this subcommittee has been pleased to make a contribution. We ensured the authorization of U.S. participation in MIGA, in the IIC, in IDA–8, and we supported appropriations for your budget requests. Against the advice and counsel of my colleagues, I supported your position in the Inter-American Development Bank. This committee has not failed you or let you down.

FMS DEBT REFORM MEASURE

And so you may well imagine my astonishment and disappointment upon reading the Treasury Department's formulation of regulations for the implementation of the FMS Debt Reform measure which was authored by Senator Kasten and myself. You will recall that Senator Kasten and I, after learning of your opposition to certain elements of our FMS debt refinancing proposal, agreed to have our staff meet with senior officials of your department and to respond to your concerns, and we did.

When I read the regulations, however, I found that Treasury Department technocrats had emasculated the debt refinancing legislation, nullifying the intent of the Congress as expressed in the committee report, in the letter Senator Kasten and I sent to you, and in the legislation itself.

The issue is the separability of the financing of new loans provided by the private sector to countries in order that they might repay their existing FMS debt. In all of our discussions, in the detailed drafting sessions where senior officials of your department were invited and participated in the drafting of the legislation, there was never, not once, any mention of the nonseparability of financing. We understood and we agreed that the guaranteed and nonguaranteed portion of the new loan could not be separated in the repayment process. We did so because we did not want the private sector to be repaid first, with the guaranteed portion of the loan paid last. We wanted the private sector to remain at risk of default over the entire life of the loan, just as the U.S. Government would remain at risk.

I think you may have already heard that a consensus is developing that the increased costs of financing resulting from the nonseparability clauses of the proposed regulations may well prevent Egypt, Morocco, all Central American and all African countries from utilizing this program. In addition, because of the cost increases involved, the program would be of marginal benefit for Israel, Turkey, Pakistan, and all Asian countries.

Under the regulations issued by the Treasury Department, U.S. national security interests would not be served; rather, they would be undermined. I believe that this view is shared by the Departments of State and Defense and the National Security Council.

While there is no disagreement about the nonseparability of the loan itself, there is nothing in the legislation or in any discussions or writings prior to the legislation that applies this nonseparability to the financing of the loan.

Why, then, do the regulations carry this nonseparability beyond the repayment of the loan when application of nonseparability to the financing of the loan will, according to experts, add up to 200 basis points to the cost of refinancing?

Mr. Secretary, do you agree with the proposition that lower interest rates on the financing of this proposal is good for the U.S. Government, inasmuch as the government is guaranteeing the interest, and with lower rates there is less liability?

Mr. Secretary, does the Department of Treasury want an FMS program which benefits only Israel, or are you interested in a program which benefits a number of countries which have serious FMS debt problems?

Once again, I welcome you, sir, and you may proceed as you wish.

[The prepared statement of Senator Kasten follows:]

PREPARED STATEMENT OF HON. BOB KASTEN

U.S. Senator From Wisconsin

Mr. Secretary, you are most welcome, as usual, to meet with us this morning. You have a number of important issues to address here, not the least of which is the general capital increase of the World Bank, and an appropriation request for the multilateral development banks which totals $1,324,000,000 in budget authority and $2,428,000,000 in callable capital.

Mr. Secretary, we want to work with you on those matters, but we do have some unfinished business which must be addressed beforehand.

I refer, of course, to the FMS debt rescheduling program which this subcommittee initiated and which Congress passed as part of the continuing resolution. It is a restrained comment to state that there is deep disappointment with the regulations the Treasury Department has suggested for this program. That disappointment is especially acute with me, and I believe with the chairman, inasmuch as when you told us of your strong opposition to certain elements of the proposal, we instructed our staff to meet with your representatives to modify the proposal in accordance with some of your concerns. While we did not change everything to the satisfaction of the Department—to do so would have eliminated the proposal—we cooperated with you and eliminated the most obnoxious proposal from your viewpoint, which would have had the Department of Defense drafting the regulations and running the program. In addition, your representatives were with us throughout the conference and their suggestions were utilized in the compromise.

Now, we have regulations which because of the nonseparability provision of the regulations do not fulfill congressional intent. Indeed, it appears that the writers of the regulations simply ignored Congress in an attempt to squeeze the program so that it would be less workable.

Mr. Secretary, both Senator Inouye and I thought that by cooperating with you and the Department of the Treasury that you would, in turn, cooperate with us. That has not been the case. Instead, in addition to the nonseparability provisions of the regulations, when we simply asked to see a copy of the draft regulations, we were told by one of your assistant secretaries that we must wait like everyone else until they are published.

I suppose that at this point we have only two choices—a rewriting of the law, which would be easiest for us, or the better course, which would be real cooperation so that the nonseparability issue is resolved in accordance with congressional intent. This would ensure that Israel would not be the only country to benefit from the law, although even if Israel were able to benefit, it would be at a reduction of savings of some 20 to 30 percent.

So while I am ready to cooperate on the issues about which you are here to testify, I am concerned about the FMS program and Treasury's attempt to scuttle it. I don't think that I need to remind you nor your subordinate officials that it is this subcommittee which authorized MIGA, the IIC, and every new replenishment for the MDB's over the last 6 years. That is cooperation. Your regulations on the FMS program are not.

On a more positive note, Mr. Secretary, I want to take this opportunity to compliment your efforts to implement the environmental reforms called for by this subcommittee.

Congress frequently finds itself required to lay out extremely explicit directions to agencies to have congressional intent carried out. Because of the close cooperation of the Treasury under your leadership, this subcommittee has not gone to the lengths it might in laying out specific actions expected of the Treasury. Your advocacy of environmental reforms is making a real difference. Your personal interests make this difference.

I would like to specifically call to everyone's attention Secretary Baker's intervention to instruct the U.S. Executive Director to the World Bank on the recent Sudan agricultural loan. Section 537(d) of the fiscal year 1988 appropriations bill establishes a new pesticide policy. That policy is designed to promote sustainable agriculture. To promote the use of Integrated Pest Management. To reduce the dependence on chemical control techniques.

I want to commend you, Mr. Secretary, in observing both the letter and spirit of that provision when you instructed the U.S. Executive Director to vote in absentia on the agricultural credit proposal of December 22. The rapid adoption of this position after its inclusion in the continuing resolution, I believe indicates how closely the Treasury and this subcommittee work together to promote environmental protection. Your instructions to the Executive Director tells me you read our legislation carefully.

I applaud your vigilance on this matter. Furthermore, I urge you to instruct the Executive Director to explore with Bank officials and Sudan's agricultural planners a more effective and long term sustainable cotton protection strategy.

STATEMENT OF HON. JAMES A. BAKER III

Secretary BAKER. Thank you, Mr. Chairman.

Before I summarize my written statement, let me respond to your comments on the specific issue because I think that what you say with respect to the cooperation that the administration has received from this committee, with respect to the action that the administration has received from this committee, with respect to the alliance which you and the Ranking Minority Member have forged is absolutely correct. We are deeply appreciative, and we are very grateful for that.

I think I would agree with you that the committee has achieved great success, that it has looked to the national interest, and that clearly the committee has worked in a bipartisan fashion. I think it is fair to say that the committee has not let us down, and I want to simply echo what you have said in that regard.

FMS DEBT REFINANCING PROPOSAL

As far as the regulations implementing the FMS debt refinancing proposal, I disagree with you respectfully, Mr. Chairman, that those regulations emasculate the legislation or nullify the intent of the Congress. The issue, as you quite properly point out, is separability. It is our judgment that we are not talking about 200 basis points in the financing cost, that we are talking about something significantly less than that.

You asked me if I support the concept of reducing interest on these loans, and the answer is of course I do. And this legislation, implemented pursuant to these regulations, will reduce interest rates.

There are major considerations, as you know, Mr. Chairman, on the domestic side as well. When we legislate in this manner for foreign loans, we receive a great deal of pressure to do the very same thing for U.S. farmers. We receive pressure to do the same thing on FHA loans, Rural Electrification loans, so that if we ended up doing this for the entire Federal financing bank portfolio of $155 billion, we would be sticking it to the taxpayer to a tremendous extent.

We support what the committee has done. We think the regulations implement what the committee has done. We do not believe we have any discretion, as a matter of fact, to provide for separability at any time, not just during the repayment process, if I may say so, as your opening statement suggested.

I would like to read you my understanding of what the statute says, and that is this. The law requires that, quote, and this is the statutory language, as I understand it, "such guarantees shall cover no more and no less than 90 percent of the private loan or any portion or derivative thereof." Further, "of the total amount of the private loan, the 90 percent guaranteed portion of the private loan cannot be separated from the private loan at any time," emphasis supplied.

So I do not think it does apply just during the repayment process. We do not think we have any latitude. If the Congress wants to provide for separability, the Congress, of course, can provide for separability, and we will follow the congressional directive, and we will carry out the congressional intent.

I think there is a substantial benefit in what you have done to the obligors on this FMS debt, and I really think what we are talking about here is a basis point differential of something more in the neighborhood of 50 basis points rather than 200.

So that would be my answer to your opening statement, Mr. Chairman, and if you would like, I will address that, answer further questions later on, and summarize my written statement for you.

Senator INOUYE. Well, Senator Kasten and I will be forwarding to you our formal comments on this matter, and I do not wish to be using all this time to debate this matter, but when we adopted this proposal, we knew very well that the pressures may come about from the domestic sector, but that is up to us to decide upon, and it does not necessarily follow that because we passed this measure, all others will come into being. That I can assure you.

Secretary BAKER. No, that is right.

Senator INOUYE. And secondly, your contention is that it is not bad. Then why is it that this consensus is now beginning to build up among these countries that this piece of paper will not be of any use to them, countries like Morocco or the Central American countries?

Secretary BAKER. Well, clearly it will be worth less if there is no separability, which is what I think the statute requires, than it would be if there were separability. You say it is 200 basis points less; I say it is more in the neighborhood, at least our domestic finance people say it is more in the neighborhood, of 50 basis points.

I thought it was the intent of the Congress that there be some private market risk to this refinancing, to the extent of 10 percent. Maybe there is not. If there is to be no private market risk, if we are simply to guarantee refinancing 100 percent by the government, I do not understand why we had a 90/10 formulation.

And of course, as I said, Mr. Chairman, if that is the congressional intent, the Congress can act and direct us in clear language, and we will obviously follow that.

I really thought that the concept here was that there would be a 10-percent private risk factor in this, that the government would step in and guarantee refinancing to the tune of 90 percent. That is, in effect, what the statute calls for, as I understand it, and that is what our regulations provide.

Senator INOUYE. Well, Mr. Secretary, we have received your full statement, and it will be made part of the record, and you may proceed as you wish, sir.

Secretary BAKER. Thank you, sir.

I want to say once again that I really do agree with what you have said. This may be my last appearance, Mr. Chairman, before this committee as Secretary of the Treasury, and I want to say one more time that I certainly agree with your summation that this has been a committee that has worked extraordinarily well on a bipartisan basis and has been extremely cooperative with the administration, and we appreciate it very much.

FISCAL YEAR 1989 BUDGET PROPOSALS

It is a pleasure for me to be here to talk to you today about our fiscal year 1989 budget proposals. Last year, as a part of the bipartisan effort to reduce the deficit, the administration and Congress agreed on fairly tight guidelines for drawing up our fiscal year 1989 budget request. The bipartisan budget agreement, as you know, Mr. Chairman, stipulated an aggregate request for the foreign affairs Function 150 Account, of $18.1 billion in BA for fiscal year 1989. The agreement also specified that the starting point for the Individual Function 150 Account components would be actual fiscal year 1988 appropriations and not the administration's 1988 budget request.

Secretary Shultz, Budget Director Miller and I have worked hard on the Function 150 budget request which the President approved.

MDB FUNDING FOR 1989

I think it should be noted that the MDB's received $1.2 billion in fiscal year 1988 appropriations, and that our request for MDB funding in fiscal year 1989 is $1.3 billion. This is an increase of 9.8 percent over our fiscal year 1988 appropriation, whereas the other components of the 150 account received around a 2-percent increase on the average.

In arriving at the $1.3 billion MDB allocation, the administration decided to fund fully all of this year's regularly scheduled MDB installments and decided not to request resources to make up funding shortfalls. It is our intention, however, Mr. Chairman, to seek all MDB funding shortfalls in our fiscal year 1990 budget request.

EIGHTH REPLENISHMENT OF IDA

The largest single item in our budget request is for the second installment for the eighth replenishment of IDA. This is extremely important, Mr. Chairman, because IDA is the world's single largest source of concessional assistance to the world's poorest countries, many of whom are in sub-Saharan Africa.

The administration's fiscal year 1989 budget request also is meeting scheduled installments for the other MDB's. Details of these requests are described more fully in my testimony which is submitted for the record.

WORLD BANK GENERAL CAPITAL INCREASE

Although it only requires a relatively small appropriation, a very important component of our request is funding for the General Capital Increase of the World Bank. After carefully reviewing the current and future demand for World Bank lending, we agreed with Bank President Barber Conable's assessment that a GCI is now necessary to assure that the bank will continue to provide the necessary support for economic growth in the developing countries. Already there has been considerable discussion and speculation in the press and here in the Congress regarding U.S. participation in the General Capital Increase. One predominant theme is that the administration's strategy for dealing with the high level of foreign debt in developing countries has failed and that a new approach should be agreed upon before the Congress appropriates resources to allow U.S. participation in the General Capital Increase.

Mr. Chairman, we strongly disagree with both suggestions. Our backing of the General Capital Increase in fact goes far beyond simply supporting the debt strategy. While it is certainly true that a healthy and vibrant World Bank is important to our debt strategy, as it would be for any approach to this problem, the reasons to support the General Capital Increase are a great deal broader than the debt issue.

WORLD BANK LOANS

Let me explain why this proposal should have the committee's support. The main role of the World Bank continues to be supporting economic development through sound project lending. At least 75 percent of World Bank lending is for projects to promote human and capital infrastructure. Much of the Bank's lending program supports countries that are strategically important to the United States, several of whom you mentioned in your opening statement such as the Philippines, Tunisia and Turkey. Even more striking is the level of World Bank support to countries who are very important to us but where there is a virtual absence of any U.S. bilateral assistance.

As an example, Argentina, Brazil and Mexico received almost $4 billion from the World Bank in 1987, and they received virtually nothing from the United States.

I want to emphasize in passing that World Bank loans are not soft loans. They are not subsidized and granted at concessional rates. An important aspect worth mentioning is the procurement contracts U.S. businesses receive from the World Bank. For fiscal year 1987, the latest figures available, U.S. firms received $1.6 billion in disbursements from the World Bank for foreign procurement. In an effort to increase this amount, personnel from the Commerce Department in conjunction with the U.S. Executive Director's Office at the World Bank and Treasury staff, are working strenuously to increase the number of contracts on which U.S. firms can bid.

Another important dimension of the Bank operations is the increasing effort to promote private sector development. Development finance companies channel considerable resources to the private sector. Bank projects in other areas often have specific elements to support the private sector such as hydroelectric projects in Turkey which supports joint ventures with the private sector for construction of power plants.

DEBT STRATEGY: A PROGRESS REPORT

The World Bank also does play an essential role in our international debt strategy. That strategy, as you know, Mr. Chairman, is based on four fundamental principles. First, the central importance of economic growth and capital formation in easing the debt burden over time; second, the need for market oriented reforms in debtor nations if we are going to achieve this kind of growth; third, new debt and equity financing and the return of capital flight to help support such reforms; and fourth, a case by case approach to address the individual needs of each debtor country, each of which, of course, differs from the other.

I firmly believe, Mr. Chairman, that this strategy remains the only viable long term approach to the debt problem. These nations need financial resources in order to grow. They also require sustained, market-oriented reform of their economic structures. These adjustments will make debtor nations more attractive for future investment, both domestic and foreign.

Together with that investment, the reforms promise stronger growth, higher standards of living, and more productive and flexible economies. These elements ultimately imply increased imports from the United States.

Considerable progress has been made within this general approach. The debtor countries have made substantial efforts to restructure their economies along more market-oriented lines. As a result, the aggregate performance of the 15 major debtors is improving. The development of debt equity swaps, debt charity swaps and a broader menu of new money options as part of new financing packages underscores the evolutionary nature of the debt strategy.

DEBTOR NATION ATTITUDES

Perhaps the most important change during the past 2 years, Mr. Chairman, has been in debtor nation attitudes. The debtor nations themselves are increasingly focused on the importance of market-led growth, and they are adopting the reforms necessary to achieve it.

The World Bank has provided strong support for these reforms through policy-based loans to support structural reforms and project loans to enhance production and development. Its loans have also helped to catalyze additional private financial flows. Together, the International Monetary Fund and the World Bank have provided approximately $17 billion in new loans for these countries since October 1985. The commercial banks have also committed nearly $19 billion in new finance during this period while rescheduling some $222 billion in outstanding debt, reducing spreads and providing longer grace periods and maturities.

Official creditors have also rescheduled some $19 billion in both principal and interest payments.

Clearly, more still needs to be done. Nevertheless, the debtor countries are increasingly committed to reforms, and they are making progress toward sustained economic growth. We must continue to support these efforts, recognizing that a careful balance between reforms and new financing is essential to assure that debt does not increase at a faster pace than the debtor's ability to service it.

The World Bank GCI will help to assure that capital does not act as a constraint on the ability of the World Bank to support continued reforms.

WORLD BANK AND REGIONAL MDB ENVIRONMENTAL LENDING PRACTICES

Mr. Chairman, the last issue that I would like to address is the role of the MDB's in the environment. One of our most important objectives in General Capital Increase negotiations has been to strengthen bank policies and programs on a broad range of environmental issues. I have taken a personal interest in those issues. They are crucial to the protection and preservation of our natural resource base in all parts of the world. They are indeed critical if we are to achieve successful and sustainable development and growth in developing countries over the longer term.

In negotiating the terms of the General Capital Increase, we have sought to reinforce President Conable's efforts and to extend their effectiveness for a number of years into the future. The report on the General Capital Increase commits the institution's shareholders from both developed and developing countries, not just the president of the bank, to an overall framework for environmental work over the next several years.

Our job now is to see that this commitment will have the impact that we seek. I think we are making appreciable progress on all of these issues. Our priority now should be to implement the provisions of legislation already in place, and Mr. Chairman, I look forward to working with you in that process in the coming months.

CONCLUDING REMARKS

In conclusion, I want to emphasize this administration's commitment and its full support for the MDB's. As you know, Mr. Chairman, the administration has made an earnest effort to consult closely with you and with members of this committee regarding the MDB replenishments which it has negotiated. Moreover, President Reagan has stressed the importance he places on U.S. commitments to these institutions. Now we urge your support for the administration's MDB request at a critical time for the international economy so that these institutions can play the role envisioned for them, which is clearly in the national interest of the United States.

Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF THE HONORABLE
JAMES A. BAKER, III
SECRETARY OF THE TREASURY

Mr. Chairman and Members of the Committee:

I welcome this opportunity to discuss with you the Administration's budgetary proposals for the multilateral development banks (MDBs) for fiscal year 1989.

Last year, as part of a bipartisan effort to reduce the federal budget deficit, the Administration and the Congress agreed on fairly tight guidelines for drawing up the FY 1989 budget request. The Bipartisan Budget Agreement stipulated an aggregate request for the Foreign Affairs (Function 150) Account of $18.1 billion in budget authority for FY 1989. The agreement also specified that the starting point for the individual function 150 account components would be actual FY 1988 appropriations, not the Administration's FY 1988 budget request.

Secretary Shultz, Jim Miller, and I have worked hard on the function 150 budget request which the President approved. It should be noted that the MDBs received $1.2 billion in FY 1988 appropriations and that our request for MDB funding in FY 1989 is $1,324 million. This is an increase of 9.8 percent over our FY 1988 appropriation, whereas the other components of the 150 account received around a two percent increase on average.

In arriving at the $1,324 million MDB allocation, the Administration decided to fund fully all of this year's regularly scheduled MDB installments and not request resources to make up funding shortfalls. It is our intention, however, to seek all MDB funding shortfalls in the FY 1990 budget request.

The largest single item in our budget request ($958 million) is for the second installment for the eighth replenishment of the International Development Association (IDA-8). This is extremely important because IDA is the world's single largest source of concessional assistance to the world's poorest countries. IDA-8 resources support economic growth and development in countries where we have strong strategic, economic, and humanitarian interests. During the course of IDA-8, Sub-Saharan Africa countries -- where most of the world's poorest countries are located -- will receive 45-50 percent of total credit commitments.

The Administration's FY 1989 budget request also is meeting scheduled installments for the other MDBs. Details of these requests are described later in my testimony.

The World Bank General Capital Increase

Although it only requires a relatively small annual appropriation, a very important component of our request is funding for the General Capital Increase (GCI) of the World Bank (IBRD).

After carefully reviewing the current and future demand for World Bank lending, we agreed with Bank President Barber Conable's assessment that a GCI is now necessary to assure that the Bank will continue to provide the necessary support for economic growth in the developing countries. The overall size of the GCI is $74.8 billion, with a three percent paid-in component. The United States has a 18.75 percent share of the GCI, which implies a budget appropriation request of $70.1 million annually over a six year period. The callable capital program limitation would be $2.3 billion annually.

Let me explain why this proposal should have your support. The main role of the World Bank continues to be supporting economic development through sound project lending. At least 75 percent of World Bank lending is for projects to promote human and capital infrastructure in areas such as energy development, development finance corporations, agriculture and rural development, urban development, and transportation.

Energy is clearly essential to development, and becomes increasingly so as economies expand. But expansion of this sector can be very expensive, often requiring large-scale investment. In its last fiscal year (1987) the World Bank made commitments of $3.5 billion for energy development projects including support for the generation and distribution of electric power to households, schools, hospitals, and industry.

In contrast to direct support for large-scale projects, the World Bank also supports small and medium-scale productive enterprises through local development finance companies (DFCs). Most DFCs lend to manufacturing enterprises, though some also specialize in particular sectors or activities, such as tourism. In FY 1987 these financial intermediaries received IBRD commitments of $2.2 billion.

The reasons for World Bank lending to agriculture and rural development are compelling. Approximately six out of every ten people in developing countries depend on agriculture and related pursuits for their livelihood. Bank projects help developing countries expand irrigation systems, provide more effective extension services, make credit available to small farmers, adopt appropriate technology, increase storage, and improve marketing and distribution facilities. The Bank committed $1.9 billion of its resources to this sector last year.

Urban development was the fourth largest recipient of IBRD commitments in Bank fiscal year 1987, receiving $1.2 billion. Urban areas now contain nearly one-third of the total population in developing countries. Urban projects usually contain major components to upgrade slums and squatter development, or the creation of sites for additional low-income housing.

The transportation sector received the fifth largest amount of World Bank commitments last year, $1.1 billion. These projects support the construction of thousands of miles of main, secondary, feeder, and rural access roads; railway construction; and expansion of seaports, riverports, and inland waterways.

Together, these five areas account for $9.9 billion out of a total annual lending program of $14.2 billion. On a regional basis, the largest allocation went to Asia ($5.3 billion), followed by Latin American and the Caribbean ($5.0 billion), and a more modest allocation ($3.9 billion) to the Middle East and the region of Northern and Sub-Saharan Africa.

Furthermore, much of the Bank's lending program supports countries that are strategically important to the United States.

Last year (FY87) the World Bank committed $342 million to the Philippines compared to U.S. bilateral economic assistance (Development Assistance, ESF, and PL-480) of $340 million. Pakistan received commitments of $397 million from the World Bank, compared to U.S. commitments of $325 million; World Bank commitments to Tunisia were $334 million compared to U.S. commitments of $84 million; and Turkey received $1.1 billion in commitments from the World Bank compared to U.S. bilateral assistance of $100 million.

Even more striking is the level of World Bank support to countries who are very important to us but where there is the virtual absence of U.S. bilateral assistance. As an example, Argentina, Brazil and Mexico received $3.9 billion from the World Bank in 1987 and virtually nothing from the United States. In total, for all of the countries listed in Table 1 below, World Bank commitments in 1987 amounted to $7.7 billion compared to $1.1 billion in U.S. commitments.

Table 1

Fiscal Year* 1987 Loan Commitments

Country	World Bank ($millions)	U.S. Bilateral ($millions)
Mexico	$1,678	4**
Brazil	1,262	2**
Argentina	965	---
Turkey	1,069	$100
Pakistan	397	325
Philippines	342	340
Morocco	577	87
Tunisia	334	84
Thailand	21	21
Indonesia	1,058	128
Totals	$7,703	$1,091

* U.S. and World Bank fiscal years differ by three months.
** Country share of regional development programs.

The U.S. portion of the paid-in capital (which is actual budget authority) that supported this IBRD lending totaled approximately $60 million as compared to the $1.1 billion dollar-for-dollar cost for U.S. bilateral assistance. These figures vividly illustrate how we cannot begin to duplicate bilaterally the amount the World Bank can lend as a multilateral institution. The cost would be prohibitive.

This funding has been put to good use:

- A $184 million loan will help Turkey improve environmental conditions in Izmir by promoting adequate water supply, sewerage, and sewage treatment facilities, as well as appropriate industrial waste-treatment policies and practices.

- A $22.3 million education loan to Morocco will improve the quality of vocational training and reduce its costs through improvements to instructor training.

- A $70 million loan will help Pakistan improve the efficiency of existing power stations, and add about 200 mega-watts of additional generating capacity.
- A $300 million loan will support Philippine economic-recovery efforts, including programs of tax reform, trade-policy rationalization, public-investment program restructuring, and rationalization of government financial institutions.
- In Brazil, an $84 million loan will benefit about 73,000 low-income farm families through construction of four small irrigation schemes, construction of simple water-supply systems, construction of two fish hatcheries, provision of extension services, marketing support, funding for community subprojects, and demarcation and protection of a natural reserve.

In passing, I also want to emphasize that the IBRD loans are not soft loans; they are not subsidized. If the real cost is considered, i.e., the currency risk plus nominal interest and fees, the effective rate approaches 14 percent.

An important aspect worth mentioning is the procurement contracts U.S. businesses receive from the IBRD. For FY 1987, the latest figures available, U.S. firms received $1.6 billion in disbursements from the IBRD for foreign procurement. In an effort to increase this amount, personnel from the Commerce Department, in conjunction with the U.S. Executive Director's office at the World Bank and Treasury staff, are working strenuously to increase the number of contracts on which U.S. firms bid.

Another important dimension of the Bank operations is the increasing effort to promote private sector development. Development finance companies, which I described earlier, channel considerable resources to the private sector. Bank projects in other areas often have specific elements to support the private sector, such as hydroelectric projects in Turkey, which supports joint ventures with the private sector for construction of power plants.

There is also support for the private sector through policy-based lending. Consultants financed through World Bank support are assisting governments in countries such as Kenya and the Philippines to formulate model agreements and revise legislation that affect petroleum in order to attract investment by foreign oil companies. Burkina Faso is being helped to revise mining sector tax and investment codes.

To further enhance the Bank's support for private sector development, Bank management has established a high-level task force including representatives of the private sector to propose policies, procedures, and initiatives. This task force will begin its review shortly and is expected to complete its report before summer.

As I mentioned, policy-based lending is an important element of Bank private sector development efforts. Such lending has become an important component of World Bank activity. The impact of such lending is broader than project loans, affecting the borrower's macro-economic policies rather than a specific activity. This will improve the allocation of resources, leading to increases in income and employment.

There is normally a requirement to meet pre-conditions before the loan will be submitted for board approval. The loans are tranched, and require additional action by the borrower before a second or third tranche will be disbursed.

Currently about three-fourths of all policy-based loans are experiencing implementation delays. Such delays are fairly unavoidable given the uncertainties in implementing politically difficult and complex reforms in such areas as public and parastatal enterprises, which account for the bulk of the delays. While the reforms that trigger release of a second tranche may be late, the reforms are only abandoned less than 10 percent of the time. Loans have been cancelled altogether due to lack of agreement between the Bank and country over economic policy.

Hence, while the Bank has encountered some difficulties with policy-based lending, the quality of the Bank operations has been quite good. IBRD policy-based lending has been more than verbal commitments; positive actions are implemented. However, while we have been impressed with such lending we still have some concerns, including the impact of policy-based lending on the poor. Therefore, as part of the GCI negotiations we asked the Bank to review policy-based loans. This review will be completed sometime this summer.

The Debt Strategy: A Progress Report

The World Bank also plays an essential role in the international debt strategy. That strategy is based on four fundamental principles:

- First, the central importance of economic growth and capital formation in easing the debt burden over time.
- Second, the need for market-oriented reforms in debtor nations to achieve such growth.
- Third, new debt and equity financing, and the return of flight capital, to help support such reforms.
- And fourth, a case-by-case approach to address the individual needs of each debtor country.

I firmly believe that this strategy remains the only viable long-term approach to solving the problems of development and debt. These nations need financial resources to grow. They also require sustained, market-oriented reform of their economic structures. These adjustments will make debtor nations more attractive for future investment -- both domestic and foreign. Together with that investment, the reforms promise stronger growth, higher standards of living, and more productive and flexible economies. These elements ultimately imply increased imports from the United States.

The strategy's key principles are constant, but its execution is dynamic within this general framework for debtor/creditor cooperation. Indeed, one of the great strengths of this approach is its adaptability.

Considerable progress has been made within this general approach. The debtor countries have made substantial efforts to restructure their economies along more market-oriented lines. As a result, the aggregate performance of the fifteen major debtors is improving:

- Their GDP growth averaged 2.5 to 3 percent in 1986-87 vs. negative growth of about 3.0 percent in 1983.

- Their export earnings rose by 13 percent last year, and their imports increased by 7 percent.
- Their interest-to-export ratios fell to about 22 percent last year, compared to an average 30 percent in the 1982-86 period. This is a key measure of their ability to service debt.
- Their reserves totaled about $40 billion in 1987, a 54 percent increase over the 1982 level of $26 billion.
- Their aggregate current account deficit fell from $15 billion in 1986 to $8 billion in 1987, well below the $50 billion deficits they were running in 1981-82.
- And several countries have made headway in reversing capital flight, with 4 of the major debtors experiencing non-debt creating financial inflows totalling more than $4 billion last year.

Perhaps the most important change during the past two years has been in debtor nation attitudes. The debtor nations are increasingly focusing on the importance of market-led growth, and adopting the reforms necessary to achieve it. For example:

- Colombia has been a successful adjuster in the past several years and has avoided the need for debt rescheduling or formal IMF agreements. It has carried out a program of broad-reaching reforms with the assistance of the World Bank and under an IMF "enhanced surveillance" arrangement. It has effectively utilized coffee windfall receipts to finance development while avoiding inflationary pressures.
- Mexico has opened up its economy to foreign competition by continuing the elimination of import licenses and lowering of tariffs. Foreign investment flows had sharply increased to over $1.4 billion before the debt/equity swap program was suspended in November 1987. This compares with $900 million and $490 million in 1986 and 1985, respectively.
- Uruguay has managed to reverse the economic decline of the early 1980's through an export-based economic strategy and a competitive exchange rate. The current account of its balance of payments is expected to improve in 1988, the inflation rate is expected to continue downward; growth prospects have also improved.
- The Philippines has liberalized imports, is implementing a comprehensive tax reform program, and has instituted major agricultural reforms.

All of these countries, with the exception of Mexico, had growth of 4 to 5 percent in 1987. Mexico's growth improved substantially over the 3.5 percent negative growth experienced in 1986 due to the oil price decline.

The World Bank has provided strong support for these reforms, through both fast-disbursing, policy-based loans to support structural reforms and project loans to enhance production and development. Its loans have also helped to catalyze additional private financial flows. Together, the IMF and the World Bank have provided approximately $17 billion in new loans for these countries since October 1985.

The commercial banks have also committed nearly $19 billion in new finance during this period, while rescheduling some $222 billion in outstanding debt, reducing spreads, and providing longer grace periods and maturities. Official creditors have also rescheduled some $19 billion in both principal and interest payments.

Clearly, more still needs to be done. Nevertheless, the debtor countries are increasingly committed to reforms and are making progress toward sustained economic growth. We must continue to support these efforts, recognizing that a careful balance between reforms and new financing is essential to assure that debt does not increase at a faster pace than the debtor's ability to service it. While this is undoubtedly a difficult task, I believe the debt strategy now in place is the only viable approach to reach this goal.

I recognize, of course, that some critics urge another path -- the development of large scale debt forgiveness schemes. We should not be misled by the false promise of "global solutions" of one sort or another. To be direct, I believe this path leads both debtors and creditors off the cliff.

This approach would irreparably politicize the debt problem, distracting debtors and creditors alike from the difficult but fundamental economic adjustment tasks. It would encourage counterproductive debt repudiations to maximize debt forgiveness. And it would shift the risk on commercial loans to taxpayers in creditor countries, including U.S. taxpayers. I simply cannot endorse such schemes.

The World Bank GCI will help to assure that capital does not act as a constraint on the ability of the World Bank to support continued reforms. We have also proposed that the IMF establish new external contingency mechanisms to help cushion the adverse effects on IMF standby programs of unforeseen external developments (such as weaker commodity prices or sustained higher interest rates).

Finally, we have encouraged the development of a "menu" approach to enhance the flexibility of commercial bank financing packages in meeting the diverse interests of both debtor nations and the banking community. Such "menus" can provide a variety of options for new financing, including traditional balance of payments loans, trade credits, project loans, on-lending facilities, new money bonds, and even limited, voluntary interest capitalization. They can also include a range of new instruments, including debt/equity swaps, debt/conservation swaps, and "exit" bonds. Debt conversion instruments help to reduce both outstanding debt and debt service burdens. Banks would choose among these options in supporting debtor reform efforts, as they have been able to do in the recent Argentine and Ecuador new money packages.

The recent Mexican debt/bond exchange provides an example of an innovative, voluntary debt conversion technique worked out between the debtor government and the commerical banks, with the principal amount of the new Mexican bonds in this case collateralized by the purchase of U.S. Treasury zero-coupon bonds. We believe the results of that exchange demonstrate that several commercial banks are interested in this kind of market-driven technique, but that most banks will only entertain such exchanges at rates well above thin secondary market values for such debt. We expect further market development of these kinds of debt conversion options in the period ahead.

World Bank and Regional MDB Environmental Lending Practices

The last issue of mutual interest I wish to address is the role of MDBs in the environment. One of our most important objectives in GCI negotiations has been to strengthen Bank policies and programs on a broad range of environmental issues. I have taken a personal interest in those issues. They are crucial to the protection and preservation of our natural resource base in all parts of the world. They are critical if we are to achieve successful and sustainable development and growth in developing countries over the longer term.

In his address at last year's annual meeting, President Conable put particular emphasis on the protection of renewable resources and pledged a substantial increase in staffing and financial resources for these purposes. Subsequently, he has sought to integrate environmental concerns more effectively into the mainstream of the Bank's work.

In negotiating the terms of the General Capital Increase, we have sought to reinforce President Conable's efforts and to extend their effectiveness for years into the future. The report on the General Capital Increase, now adopted by the Bank's Board of Directors, calls for:

- additional emphasis on the need for better management of human and natural resources so that countries can achieve fully sustainable development;
- integration of environmental work into country development strategies, policies and programs;
- evaluation of the environmental costs of bank projects;
- mitigation or elimination of adverse effects of bank projects; and
- support for national and regional programs to improve environmental management.

Getting this language into the Report on the General Capital Increase is an important step. It commits the institution's shareholders from both developed and developing countries, not just the President of the Bank, to an overall framework for environmental work over the next several years. Our job now is to see that this commitment is turned into a series of strategy papers, policy decisions, and lending programs that will have the impact that we seek.

Let me turn now to the general issue of environmental reforms in the multilateral development banks. As you know, legislation now requires us to submit a report on progress in implementing a series of specific reforms in the banks. The first of these reports was forwarded to the Congress in January. Follow-up reports are to be made each year hereafter.

I am pleased to report that significant progress has been made in the area of organizational and staffing reforms, especially at the World Bank. The regional MDBs have implemented reforms, but still require further strengthening in the area of staffing. This issue is being addressed through the Board of Directors and upcoming annual meetings.

We also would like to see a more systematic accounting of the way the Banks report on environmentally beneficial projects as described in the legislation. To address this concern, follow-up environmental reports will seek to measure actual increases or decreases in lending devoted to energy conservation, forestry, light capital technologies and other environmentally beneficial projects.

I would like to call your attention to progress which has been made in the provision dealing with environmental staff and staff training. During 1987, the World Bank carried out a major reorganization of its management and staff. One of its primary aims was strengthening the Bank's capacity to deal more effectively with environmental issues. A Central Environmental Department was created as well as environmental units in each of the Bank's four regional offices. Thus far, 45 full time permanent positions have been authorized for environmental purposes.

In addition, funds have been authorized for the equivalent of 18 full time consultants to work on various environmental issues. Use of consultants provides the Bank with greater flexibility and access to expertise on a broader range of environmental issues. Training on environmental issues is continuing in the Economic Development Institute and special training courses for staff are being introduced.

In the Inter-American Development Bank, two senior environmental experts have been added to the Bank's permanent staff, an ecologist and an expert on rainforests. A three-day seminar on environmental issues was held last December for 40 members of the Bank's project analysis staff. Additional seminars for other members of the Bank staff are planned for later this year. A one-day briefing on environmental issues is also being planned for all of the Bank's representatives in borrowing countries.

As I indicated earlier, the World Bank has established a Central Environmental Department. The Inter-American Development Bank has set up an Environmental Affairs Committee in place of a line unit. Small line units have also been set up in the Asian Development Bank and the African Development Bank. Clearly both of these units will need to be expanded and strengthened. However, a start has been made.

A start has also been made on promoting participation of non-governmental organizations in the project preparation cycle. The World Bank, the Inter-American Development Bank, and African Development Bank have issued instructions to staff to seek participation of non-governmental groups and indigenous peoples in project preparation. The Asian Development Bank has commissioned a report on how it should work with local non-governmental organizations. The World Bank and the Inter-American Development Bank have held meetings with non-governmental organizations here in Washington to facilitate the exchange of information. I readily admit however, that we need to do more to encourage improvements in the area of NGO involvement.

Within the U.S. Government we are working to improve the ability of the early warning system to monitor MDB projects with potential adverse effects. This is helping us to weigh in with Bank management at an early stage and try to mitigate or correct adverse environmental effects. We are also taking a tougher stand against unsatisfactory loan proposals that reach the board, abstaining on environmental grounds on an AFDB loan to Botswana in August, on AFDB loans to Mali and Benin in October, on a World Bank loan to Sudan in December and on an AFDB loan to Burkina Faso in February. We are also beginning more systematic consultations on environmental issues with other member countries. I, myself, will participate in the Development Committee's discussions next month on environmental matters.

In sum, I think we are making appreciable progress toward our objectives. Obviously, we are not where we want to be, and we will need to put continuing emphasis on all of these issues. Our priority now should be to implement the provisions of legislation already in place. I look forward to working with you in that process in the upcoming months.

Fiscal Year 1989 Budget Request

We are requesting $1.3 billion for the MDBs in FY 1989. These funding requests reflect both the need for budgetary restraint and the financial requirements for effective development programs. The stringency of the cap on international affairs funding in the Bipartisan Budget Agreement prevents the administration from requesting U.S. funding shortfalls on earlier scheduled MDB payments. Our MDB request is comprised, therefore, of MDB funding requirements currently due for payment.

These requests are composed exclusively of funding requirements negotiated by the Administration in close consultation with this Committee.

International Bank for Reconstruction and Development (IBRD)

For the IBRD (also known as the World Bank) in fiscal year 1989, the Administration is requesting $70.1 million in budget authority and $2,293 million under program limitations for subscriptions to the first installments of the 1988 GCI.

The Bank's principal role today is making long-term credit available for productive projects, at market-related interest rates, which will lead to economic growth and social development in its less developed members. In addition to providing project finance, the IBRD also provides policy advice and technical assistance and serves as a financial catalyst and institution builder.

International Development Association (IDA)

For fiscal year 1989, the Administration is requesting $958.3 million for the second installment for the $2,875 million U.S. share of the eighth replenishment of IDA. IDA, an affiliate of the World Bank, is the single largest source of multilateral development assistance for lending on concessional repayment terms to the world's poorest countries; over 96 percent of IDA lending goes to countries with an annual per capita income of $400 or less. We intend to seek the U.S. funding shortfall of $43.3 million in FY 1990.

International Finance Corporation (IFC)

For fiscal year 1989, the Administration is requesting $35.0 million for the third of five installments on the U.S. subscription to the $650 million IFC capital increase. The IFC provides risk capital as well as long-term loans; plays an important role as a catalyst in attracting private capital; and provides technical assistance to developing countries that want to encourage domestic and foreign private investment. We intend to seek the U.S. funding shortfall of $49.8 million in FY 1990.

Inter-American Development Bank (IDB)

There is no request of funds for the IDB in fiscal year 1989 because it has not been possible to reach agreement on a seventh replenishment for the Bank. The only outstanding U.S. funding necessary for the IDB ordinary capital is a shortfall of $31.6 million for the sixth replenishment. The Administration is not requesting that shortfall in FY 1989 because the Bipartisan Budget Agreement forced the Administration to choose between providing resources for U.S. funding shortfalls or currently scheduled MDB payments.

The Administration has decided that not funding the shortfalls will have less programmatic impact. For this fiscal year the IDB has adequate reserves to meet its lending requirements based on the list of projects now being prepared by the Bank. Contingent upon resolution of a question relating to an internal investigation in the Bank, we intend to seek the U.S. funding shortfall of $31.6 million in FY 1990. The Bank promotes economic development among developing countries in the Western Hemisphere by extending loans for specific projects on market-related terms.

Fund for Special Operations (FSO)

There is no funding request in fiscal year 1989 for the FSO through which the IDB extends concessional loans to the poorest countries of the Latin America and the Caribbean. The reasons for not making a request are the same as for the IDB's ordinary capital operations. Sufficient funds remain from IDB-6 to provide a credible concessional lending program for the region's really poor countries. Contingent upon resolution of a question relating to an internal investigation in the Bank, we intend to seek the U.S. funding shortfall of $63.7 million in FY 1990.

Inter-American Investment Corporation (IIC)

The Administration is not requesting budget authority for the IIC for FY 1989. Sufficient funding has already been provided to enable this new organization to begin operations this year. The IIC is linked to the IDB, and is designed to support private sector activities in Latin America through equity and loan investments that focus primarily on small- and medium-scale enterprises. We plan to resume payments to the IIC in FY 1990.

Asian Development Bank (ADB)

The ADB is currently making lending commitments on the basis of a capital stock that is fully subscribed by Bank member countries, including the United States. Hence, there is no need to request funding for the ADB in fiscal year 1989. The Bank makes loans at market-related rates to developing member countries of the region to help bring about conditions necessary for political stability in a region of the world of key importance to U.S. strategic and economic interests.

Asian Development Fund (ADF)

For fiscal year 1989, the Administration is requesting $146.1 million to make a regularly scheduled installment to the fourth replenishment of ADF resources. The Bipartisan Budget Agreement prevents us from requesting the funding shortfall of $191 million to the ADF until FY 1990. However, because of exchange rate changes and lower than expected lending levels, it is expected that the $146.1 million request will enable the Fund to complete its project lending programs in calendar year 1988.

The ADF is a source of concessional finance to the poorest member countries of the ADB. Pakistan, Bangladesh, Sri Lanka, and Nepal are the major borrowers from the Fund.

African Development Bank (AFDB)

For fiscal year 1989, the Administration is requesting $9.0 million in budget authority for subscriptions to paid-in capital and $134.9 million under program limitations for callable capital for the second of five installments to increase the Bank's capital base. The Bank makes loans on market-related terms for the economic and social development of fifty African member countries, individually and through regional cooperation. Membership and support of the AFDB is an important part of the U.S. commitment to work with the countries of Africa for the achievement of their long-term development objectives.

African Development Fund (AFDF)

For fiscal year 1989, the Administration is seeking $105 million in budget authority for the first of three installments for the U.S. contribution to the fifth replenishment of AFDF resources. The Fund complements AFDB operations by providing concessional financing for high priority development projects in the poorest African countries. The United States has a strong humanitarian interest in aiding the poorest countries of the world's least developed continent through its support for the AFDF.

Conclusion

In conclusion, Mr. Chairman, I want to emphasize this Administration's commitment and full support for the MDBs.

As you know, Mr. Chairman, the Administration has made an earnest effort to consult closely with you and members of this Committee regarding the MDB replenishments it has negotiated. Moreover, President Reagan, in various fora and through letters to you, has repeatedly stressed U.S. commitment to these institutions. Now, we urge your support for the Administration's MDB request so that these institutions will benefit the people for whom they were intended -- both abroad and here in the United States.

INTER-AMERICAN DEVELOPMENT BANK

Senator INOUYE. Thank you very much, Mr. Secretary.

I would like to begin with a few questions on the Inter-American Development Bank, the IDB.

I have been receiving very favorable reports on the recent Caracas meeting of the IDB. In particular, I have heard that the new president-elect, Enrique Iglesias, was very constructive in addressing the issues which have divided the U.S. and Latin members of the bank, and from the reports, it would appear that the right person has been found to do the job of restoring unity of purpose and direction of the bank.

Will the administration be providing positive signals in support of this new president-elect?

Secretary BAKER. Mr. Chairman, I think the administration has already provided positive signals. I personally conducted the meeting at the Inter-American Development Bank at which Mr. Iglesias was elected president in order to show our support for his candidacy and for his election. I have met with him on several occasions before his formal election, and I have talked with him since, and it of course is the desire of the United States to work out these problems in a cooperative and mutually acceptable way.

NEED FOR REFORMS IN IDB

I must say, though, Mr. Chairman, that it is our view that there has to be some fundamental reform in this bank if the U.S. taxpayer is to be asked to increase the size of the bank. The United States puts up, I think, roughly 70 percent of the resources of the bank and has only about 34 percent of the vote. And it is the view of the administration that there have got to be some major policy changes in the bank and major changes in the way loans are approved before we come to you with a request to significantly increase the size of this bank.

PERCENTAGE OF U.S. CONTRIBUTION TO BANK

Senator NICKLES. What do you say the percentage we are contributing is?

Secretary BAKER. I think it is about 70 percent, Don, of the usable resources, and we have 34 percent of the vote.

Senator INOUYE. So therefore, you will not be requesting any funding for IDB in the fiscal year 1989 budget?

Secretary BAKER. No, sir.

PAID-IN CAPITAL ARREARS FUNDING

Senator INOUYE. I have been told that you may be requesting full funding of the paid-in capital arrears in fiscal year 1990, is that correct?

Secretary BAKER. Yes, sir. Our present plans, Mr. Chairman, are to request in the fiscal year 1990 budget full funding of all of the shortfalls from past years, which amount to, I think, $405 million, Mr. Chairman, including the shortfall to the IDB. But that would be requesting funding of a shortfall rather than an enlargement of the bank; and I must also say that we have one other problem we have to work out at the IDB involving the investigation of a particular loan payment.

But our present intention, assuming that is resolved satisfactorily, is to go ahead and request the arrearages due the IDB as well as all the other MDB's in the fiscal year 1990 budget.

Senator INOUYE. You spoke of changes.

IDB ADMINISTRATION CHANGES

What sort of changes would the new IDB administration have to make before our government would make certain changes in our funding policy?

Secretary BAKER. Well, we would like to see more emphasis on private sector lending. We would like to see more emphasis on reform, that is, more policy-based lending and perhaps less project-based lending, the kinds of things, frankly, sir, that we have been encouraging in the other multilateral development banks since we have been in office. And we would also like to have—what we have requested and which we think is a very reasonable request—the right to delay loans. If we are going to enlarge the size of the IDB and the United States is going to subscribe to a lot more funding, then we should have the right to delay a loan that we think has not been properly staffed out or does not have the proper policy conditionality. We want to delay a loan for a period of 18 months, provided we get the concurrence of at least one of the other three executive directors from donor countries. There are only four executive directors from donor countries, the United States, Canada, Europe and Japan. And we would like to have the right, if we are going to put up a lot more money for an enlarged bank, to have a little bit more say in how that money is spent.

VOTING PROCEDURES IN THE IDB

Senator INOUYE. What are your thoughts on the voting ratio?

Secretary BAKER. I do not think that question is capable of being answered with reference to a specific percentage, Mr. Chairman. I think I expressed our position accurately when I said we would like to be able to delay a loan with the concurrence of one other executive director. If that executive director happens to be a European constituancy, then the percentage would be greater than if that executive director were Canadian, perhaps. No, Canada is the second largest. I am sorry. Well, let's say it was a European Executive Director.

So it really is not capable of being answered with reference to a specific percentage.

We made a proposal to the Group A countries along these lines that we think is a very reasonable proposal, and we have not gotten a counterproposal back, Mr. Chairman. We really believe the ball is in their court, not in the court of the United States. We have made it very clear we want to work with the new president to implement as many reforms as we can, take a look at how that affects the bank and how it affects its lending policies, how it works. But we think that if we are going to go to the American taxpayer and ask for a lot more money to fund this bank, then it is quite reasonable to request that we have a little bit more say in how that money is spent.

We have made a very reasonable proposal. The ball is in their court to come back to us, as far as we are concerned.

Senator INOUYE. What was the proposal, sir?

Secretary BAKER. We made a proposal that we would like the right to delay a loan for 18 months if we were joined by one of the other three donor country executive directors of the bank.

Senator INOUYE. If the president-elect, Mr. Iglesias, should concur with this request, would there be a change in attitude here?

Secretary BAKER. Oh, I think we made that very clear as far back as the annual meeting of last year down in Miami, FL. Certainly we would be inclined then to support the concept of an enlarged Inter-American Development Bank. We would still like to see some policy reforms, but we really do believe that President Iglesias will be moving in that direction.

Senator INOUYE. Mr. Secretary, I have many other questions, but I would like to now call upon Senator Specter.

Senator SPECTER. Thank you very much, Mr. Chairman.

CORRESPONDENCE

Mr. Secretary, in the time allotted to me I would like to pursue the two questions which I discussed with you on the full committee hearing back on March 1. I thank you and your staff for the response to my letter and working with my staff, and Mr. Chairman, I ask unanimous consent at this time that the text of my letter to Mr. Baker dated March 22, and his response, be placed in the record at this juncture.

Senator INOUYE. Without objection, so ordered.

[The information follows:]

United States Senate
WASHINGTON, DC 20510

March 22, 1988

Jim — This specifies questions on the two topics which I raised with you at the 3/1/88 hearing on:
① World Bank and
② Enforcement of Career Criminal Law
I'd appreciate your written response before the 3/30/88 Foreign Operations hearing.
Regards

The Honorable James A. Baker III
Secretary
Department of Treasury
15th Street and Pennsylvania Avenue
Washington, D.C. 20220

Dear ~~Secretary Baker~~ Jim:

I am writing to follow up on our discussion at the Senate Appropriations hearing on March 1, 1988. My staff already has followed up with yours.

I am enclosing some written questions in anticipation of your scheduled appearance before the Senate Appropriations Foreign Operations Subcommittee on March 30, 1988. I would appreciate receiving your responses at least one full day prior to the hearing.

1. As you know, I long have been concerned about certain lending practices of the World Bank and other international lending institutions. The Administration has stated that it is making every effort to curb the trade deficit which has adversely affected employment in our manufacturing sector. Given this, does the Administration object to the World Bank's and other multilateral development banks' practices of lending millions of dollars to countries which subsidize steel, and thus injure the American steel industry? How does the Administration and World Bank representatives, as a matter of policy, take into account the potential impact on American industry of World Bank loans when making approval decisions? I request data on loans considered by the United States in its multilateral bank role, including loans that were submitted by multilateral banks that would negatively impact American industry, loans that the Administration has had our representatives vote against, and loans provided by the multilateral banks against the opposition of the United States.

2. What specific policies are in place and what criteria does the World Bank and others follow in determining the amount and approval of loans? I would appreciate receiving a review of actual loan performance data to supplement the explanation of the criteria used for loan approval.

3. What specific action has the Department of Treasury taken to place more stringent restrictions on multilateral bank lending practices, in order to help domestic industries such as steel and coal from the impact of unfair foreign competition? As you know, committee language directed the Treasury Department to consider this matter.

4. The Bureau of Alcohol, Tobacco and Firearms established a repeat offender and career criminal program to implement the Armed Career Criminal Act of 1984 and the 1986 amendments (18 U.S.C. 924(e)) and the 1986 amendments to the Gun Control Act of 1968 (18 U.S.C. 924(c)). BATF Director Higgins advised me in a letter dated February 26, 1988, that during Fiscal Year 1987 and the first quarter of Fiscal Year 1988, 2,486 repeat offender suspects, all of whom had prior felony convictions, were charged with Federal firearms law violations. The Bureau's overall conviction rate in those firearms cases adjudicated in FY 1987 was 96.3 percent. Additionally, sentences for violations of the two repeat offender provisions averaged 12 years in a recent study of 127 convictions. What are your recommendations for improving and expanding the current repeat offender provisions and programs?

5. In his letter of October 17, 1987, BATF Director Higgins described the Armed Career Criminal Act as "an extremely effective tool" which "has been given a warm and enthusiastic reception by members of the law enforcement community and prosecutors across the country." Director Higgins stated that "with proper funding and resources ATF can continue to have a very positive impact on the crime problem by removing the armed career criminals and narcotics traffickers from our streets." What are the Treasury Department's budget proposals in FY 1989 for the Bureau generally and for the Repeat Offender Program specifically? How was the funding proposal for the Repeat Offender Program derived?

6. Last year, the Senate Appropriations Committee noted in report language that BATF "is in a unique position to have impact on violent crime through its jurisdiction over the Armed Career Criminal Act." At my request, the Committee recommended and Congress approved an additional $10 million for BATF in FY 1988 to provide for the hiring of 120 special agents, 60 inspectors, and 20 support personnel in the Armed Career Criminal Apprehension Program. What is the current status of the Bureau's utilization of this new funding? What are your views regarding the continuation of at least this level of funding in Fiscal Year 1989? To what extent could the Bureau efficiently and effectively utilize additional funding in FY 1989 for implementing the Repeat Offender Program, if it were available in the appropriations process?

7. In your March 1 testimony before the Appropriations Committee, you cited an impressive 30 percent increase in Department spending over the FY 1987 level on firearm-related cases. You also indicated that the Department is recommending 5,000 suspects for prosecution, which is an 18 percent increase over last year's level. In this context, you suggested that 200 Full Time Employees (FTEs) may be eliminated out of a total of 129,000 FTEs in the Treasury Department. I have expressed concern that these positions might be eliminated from BATF and its Repeat Offender Program. Although I share your interest in meeting the requirements of the Budget Summit Agreement and the deficit reduction targets, I am interested in your views on the following issues:

(a) What are the Department's final proposals regarding staffing levels for BATF and the Repeat Offender Program in FY 1989?

(b) In view of your own very impressive report of firearms enforcement successes by BATF in FY 1987, how can the Department justify the elimination of the 200 positions recently added to this program in FY 1988? To what extent did the Department's policy deliberations consider the statistics cited above?

(c) While there certainly are other Treasury employees performing vitally important functions, there is no enforcement mission more important to our nation's future than the war against drugs and drug traffickers. Do you not agree that we must support the men and women fighting this war -- whether they work for ATF or DEA or Customs -- even to the extent that other important functions might have to sacrifice resources to ensure full funding of the enforcement agencies? Why would such a successful program be subject to a disproportionate share of staff and budget cutbacks within the Department?

8. The 66 percent increase in firearms compliance inspections in FY 1987 which you mentioned during the hearing is most impressive. These inspections are vital to ensuring the integrity of the firearms tracing system and to providing investigative leads under the Armed Career Criminal Act. I am advised, however, that the FY 1988 projections in the Treasury Department's FY 1989 budget request for BATF show that, even with the 60 additional positions provided for by the Congress at my request, BATF still will not have the resources it needs to reach its FY 1987 performance level. Why would the Treasury Department cut back on a program during the same year that an increase was mandated by Congress?

9. The Repeat Offender Program is used to target and apprehend the most violent, vicious organized criminal groups to emerge in the Untied States since Prohibition - the Jamaican Posses. These groups are directly responsible for at least 800 drug-related homicides in the last 24 months. How do you reconcile the Administration's often stated commitment to drug enforcement with the deep cuts it is proposing in one of the most effective new anti-drug trafficking programs established in recent years?

10. The compilation, analysis and dissemination of statistics regarding implementation of the Armed Career Criminal Act is essential to effective oversight and consideration of future program modifications. What is the current procedure by which BATF tracks career criminal cases and reports statistics? What are your recommendations regarding implementation of a formal system by which career criminal arrests, prosecutions and convictions could be tracked, compiled and reported? What joint efforts with the Justice Department can be instituted to facilitate the tracking of career criminal cases on the local, state and federal levels?

I appreciate your consideration of these questions regarding international banking and career criminal programs. I also very much appreciate the time the Treasury and BATF staffs have spent working with members of my staff on these important matters. I look forward to receiving your responses, and to working with you further on these vital issues.

Sincerely,

Arlen Specter

AS/mrk

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

March 29, 1988

Dear Senator Specter:

On behalf of Secretary Baker, I am enclosing the responses to the questions in your March 22 letter concerning the Multilateral Development Banks (MDBs) and the Bureau of Alcohol, Tobacco and Firearms (ATF).

I understand that Treasury staff has already met with your staff to provide additional information. I hope this information will be helpful in preparation for the Senate Appropriations Foreign Operations Subcommittee hearing.

Sincerely,

John K. Meagher
Assistant Secretary
(Legislative Affairs)

The Honorable Arlen Specter
United States Senate
Washington, DC 20510

Enclosure

Question:

1. As you know, I long have been concerned about certain lending practices of the World Bank and other international lending institutions. The Administration has stated that it is making every effort to curb the trade deficit which has adversely affected employment in our manufacturing sector. Given this, does the Administration object to the World Bank's and other multilateral development banks' practices of lending millions of dollars to countries which subsidize steel, and thus injure the American steel industry? How does the Administration and World Bank representatives, as a matter of policy, take into account the potential impact on American industry of World Bank loans when making approval decisions? I request data on loans considered by the United States in its multilateral bank role, including loans that were submitted by multilateral banks that would negatively impact American industry, loans that the Administration has had our representatives vote against, and loans provided by the multilateral banks against the opposition of the United States.

Answer:

The Administration fully shares your concerns regarding lending by the Multilateral Development Banks (MDBs) for production of commodities such as steel, copper, and palm oil which are currently in global oversupply. Fortunately, however, these concerns are now largely shared by MDB managements. There is currently very little MDB lending for additional production of such surplus commodities. As per a table which has been provided to your staff, less than five percent of MDB lending is now for sensitive commodities. Additionally, much of this production is for local consumption rather than export.

Nevertheless, some troubling loans for production of surplus commodities still come forward. In such instances the Administration does not hesitate to oppose them. Loans opposed by the United States primarily on these grounds include a cement mill expansion in Venezuela, the expansion of an iron ore mine in Brazil, and a palm oil project in Malaysia. Other projects opposed by the United States for economic/financial reasons in recent years can be found on a list recently provided to your staff.

Question:

2. What specific policies are in place and what criteria does the World Bank and others follow in determining the amount and approval of loans? I would appreciate receiving a review of actual loan performance data to supplement the explanation of the criteria used for loan approval.

Answer:

Treasury and other Working Groups on Multilateral Aid (WGMA) agencies -- including the Commerce, Interior, Agriculture, and Labor Departments and the United States Trade Representative -- carefully examine all proposed MDB loans. Loan proposals are closely reviewed for economic, financial, and environmental soundness, compatibility with American producer interests, and other issues such as terrorism, narcotics, and expropriation. The views of our Embassies overseas are also solicited, as well as those of American producer associations. Recently Treasury consulted with the Fertilizer Institute about a World Bank fertilizer sector Loan to Mexico. The Fertilizer Institute had no objection to this loan, as it will actually eliminate subsidies and close down uneconomic fertilizer manufacturing capacity. We have provided your staff with WGMA's detailed loan review manual.

The WGMA has also adopted standard policies on such issues as oil and gas lending, cost overruns, public utility tariffs, and irrigation user fees. The MDBs have independent units to review and evaluate their completed projects. Findings by these units are contained in project performance audit reports, which are supplied to all member governments. Additionally, MDB loan documents discuss in some detail the performance of the borrowing country, in both macro-economic and sector terms. The effectiveness of prior MDB lending in obtaining needed reforms is also discussed.

Question:

3. What specific action has the Department of Treasury taken to place more stringent restrictions on multilateral bank lending practices, in order to help domestic industries such as steel and coal from the impact of unfair foreign competition? As you know, committee language directed the Treasury Department to consider this matter.

Answer:

The Administration (Treasury) has informed the World Bank and the other MDBs that the U.S. Government strongly opposes projects that will promote production of commodities already in global surplus, and which will be clearly injurious to U.S. producers. Administration influence in opposing projects involving sensitive commodities should not be measured simply by the success in stopping a specific loan; some new loans will never enter the "pipeline" of possible future projects because of U.S. opposition to a similar previous loan.

4. The Bureau of Alcohol, Tobacco and Firearms established a repeat offender and career criminal program to implement the Armed Career Criminal Act of 1984 and the 1986 amendments (18 U.S.C. 924(e)) and the 1986 amendments to the Gun Control Act of 1968 (18 U.S.C. 924(c)). BATF Director Higgins advised me in a letter dated February 26, 1988, that during Fiscal Year 1987 and the first quarter of Fiscal Year 1988, 2,486 repeat offender suspects, all of whom had prior felony convictions, were charged with Federal firearms law violations. The Bureau's overall conviction rate in those firearms cases adjudicated in FY 1987 was 96.3 percent. Additionally, sentences for violations of the two repeat offender provisions averaged 12 years in a recent study of 127 convictions. What are your recommendations for improving and expanding the current repeat offender provisions and programs?

ANSWER: We fully recognize the significance of the accomplishments achieved by the Bureau of Alcohol, Tobacco and Firearms (ATF) through the implementation of its repeat offenders program. The lengthy prison sentences being imposed in these cases are bound to impact on the criminal activity of this group of violators and should, in time, contribute to a downward trend in the nation's overall crime rate. We fully support ATF in this initiative and intend for it to continue and expand its efforts in this area.

One way we recommend expanding and improving this program is through an even greater utilization of a task force approach. We support the formation of, and participation in, task forces in appropriate locations. By pooling resources with State and local enforcement agencies, and by taking advantage of their expertise and knowledge of the local criminal element, we believe even greater numbers of Armed Career Criminal cases can be made, while minimizing the need to redirect manpower from other vital functions performed by ATF.

We would also like to more fully explore the cross-designation of State prosecutors in order that they could bring Armed Career Criminal cases directly into Federal court, in order to take advantage of the enhanced and mandatory sentencing provisions of 18 U.S.C. sections 924(e) and 924(c), respectively.

5. In his letter of October 17, 1987, BATF Director Higgins described the Armed Career Criminal Act as "an extremely effective tool" which "has been given a warm and enthusiastic reception by members of the law enforcement community and prosecutors across the country." Director Higgins stated that "with proper funding and resources ATF can continue to have a very positive impact on the crime problem by removing the armed career criminals and narcotics traffickers from our streets." What are the Treasury Department's budget proposals in FY 1989 for the Bureau generally and for the Repeat Offender Program specifically? How was the funding proposal for the Repeat Offender Program derived?

ANSWER: The FY 1989 President's budget for ATF includes 3,235 full-time equivalent (FTE) positions and $218.5 million to carry out its basic law enforcement and regulatory functions. The staffing resources earmarked for the Repeat Offender Program in FY 1989 include 69 FTE positions and $3.5 million.

In the continuing resolution dated December 22, 1987, for FY 1988 (P.L. 100-202) ATF received additional positions to enforce provisions of the Comprehensive Crime Control Act. Although the funding necessary to maintain this staffing level is not proposed to continue in FY 1989, high priority complex investigations involving armed, habitual, career criminals and drug manufacturers and traffickers who violate the Comprehensive Crime Control Act will continue to be conducted.

6. Last year, the Senate Appropriations Committee noted in report language that BATF "is in a unique position to have impact on violent crime through its jurisdiction over the Armed Career Criminal Act." At my request, the Committee recommended and Congress approved an additional $10 million for BATF in FY 1988 to provide for the hiring of 120 special agents, 60 inspectors, and 20 support personnel in the Armed Career Criminal Apprehension Program. What is the current status of the Bureau's utilization of this new funding? What are your views regarding the continuation of at least this level of funding in Fiscal Year 1989? To what extent could the Bureau efficiently and effectively utilize additional funding in FY 1989 for implementing the Repeat Offender Program, if it were available in the appropriations process?

QUESTION: What is the current status of the Bureau's utilization of this new funding?

ANSWER: To date this fiscal year, the Bureau has had a net increase of 99 special agents and 20 support personnel that will be dedicated to the Comprehensive Crime Control Act Program. ATF is continuing to place utmost emphasis in continuing to hire personnel to support this program as intended by Congress. The Bureau feels confident that by the end of this fiscal year it will be successful in filling those positions.

QUESTION: What are your views regarding the continuation of at least this level of funding in Fiscal Year 1989?

ANSWER: As previously stated, the Comprehensive Crime Control Act of 1984 has been a very positive force in helping the Department aggressively pursue armed career criminals. As you know, the apprehension of such criminals can have a considerable payoff since they are responsible for a disproportionate share of serious crimes. In light of the President's determination to restrain Federal spending, I believe that the FY 1989 budget proposal for ATF represents a continuing commitment to fund the Armed Career Criminal Program at necessary levels. In addition, ATF has the latitude to redirect its other law enforcement resources towards this Program, as priorities dictate and opportunities arise.

QUESTION: To what extent could the Bureau efficiently and effectively utilize additional funding in FY 1989 for implementing the Repeat Offender Program, if it were available in the appropriation process?

ANSWER: As mentioned previously, I believe that ATF has sufficient resources to effectively and efficiently administer this vital program. Proposing additional resources for this program would be unnecessary considering the President's efforts to restrain Federal spending.

7. In your March 1 testimony before the Appropriations Committee, you cited an impressive 30 percent increase in Department spending over the FY 1987 level on firearm-related cases. You also indicated that the Department is recommending 5,000 suspects for prosecution, which is an 18 percent increase over last year's level. In this context, you suggested that 200 Full Time Employees (FTEs) may be eliminated out of a total of 129,000 FTEs in the Treasury Department. I have expressed concern that these positions might be eliminated from BATF and its Repeat Offender Program. Although I share your interest in meeting the requirements of the Budget Summit Agreement and the deficit reduction targets, I am interested in your views on the following issues:

(a) What are the Department's final proposals regarding staffing levels for BATF and the Repeat Offender Program in FY 1989?

ANSWER: The FY 1989 President's budget for ATF includes 3,235 full-time equivalent (FTE) positions to carry out its basic law enforcement and regulatory functions. The staffing resources earmarked for the Repeat Offender Program in FY 1989 include 69 FTE positions.

(b) In view of your own very impressive report of firearms enforcement successes by BATF in FY 1987, how can the Department justify the elimination of the 200 positions recently added to this program in FY 1988? To what extent did the Department's policy deliberations consider the statistics cited above?

ANSWER: To reiterate, the Department believes that the FY 1989 budget proposal for this program contains sufficient resources to continue our efforts to aggressively combat violent crime. Although it is always possible to do more with more resources, the FY 1989 budget proposal for ATF adequately funds the Armed Career Criminal Program, especially in light of the President's determination to restrain Federal spending.

(c) While there certainly are other Treasury employees performing vitally important functions, there is no enforcement mission more important to our nation's future than the war against drugs and drug traffickers. Do you not agree that we must support the men and women fighting this war -- whether they work for ATF or DEA or Customs -- even to the extent that other important functions might have to sacrifice resources to ensure full funding of the enforcement agencies? Why would such a successful program be subject to a disproportionate share of staff and budget cutbacks within the Department?

ANSWER: The Administration considers enhancements to the Federal drug law enforcement program to be one of its top domestic priorities. Over the past seven years, the President has successfully sought additional resources for drug enforcement in a number of agencies. Government-wide resources devoted to drug enforcement will total almost $3 billion in FY 1989, a 13 percent increase over FY 1988 levels. Within that total, $522.5 million is proposed for drug enforcement efforts in Customs, IRS and ATF. This is an increase of over 200 percent from FY 1981 levels. We believe these facts clearly indicate our determination to use our enforcement resources to reduce violent crime.

At the levels proposed for ATF, funding for firearms enforcement, which includes the Armed Career Criminal Program, will have increased by more than 51 percent since FY 1986 -- from $55 million and 884 FTE to $84 million and 1,122 FTE. It should also be emphasized that ATF has the management flexibility to redirect additional personnel and resources into the Armed Career Criminal Program above the levels currently planned in order to ensure that important criminal investigations or compliance actions are undertaken. In this way, ATF applied 66 percent more staff years to the firearms compliance program last year than had been originally planned.

8. The 66 percent increase in firearms compliance inspections in FY 1987 which you mentioned during the hearing is most impressive. These inspections are vital to ensuring the integrity of the firearms tracing system and to providing investigative leads under the Armed Career Criminal Act. I am advised, however, that the FY 1988 projections and the Treasury Department's FY 1989 budget request for BATF show that, even with the 60 additional positions provided for by the Congress at my request, BATF still will not have the resources it needs to reach its FY 1987 performance level. Why would the Treasury Department cut back on a program during the same year that an increase was mandated by Congress?

ANSWER: Although we did have to make the difficult decision to reduce the firearms compliance program from actual FY 1987 levels, we will continue to provide support to higher-priority initiatives, such as those related to the Armed Career Criminal Act. This will be accomplished by deferring lower-priority initiatives.

9. The Repeat Offender program is used to target and apprehend the most violent, vicious organized criminal groups to emerge in the United States since Prohibition - the Jamaican Posses. These groups are directly responsible for at least 800 drug-related homicides in the last 24 months. How do you reconcile the Administration's often stated commitment to drug enforcement with the deep cuts it is proposing in one of the most effective new anti-drug trafficking programs established in recent years?

ANSWER: The Bureau of Alcohol, Tobacco and Firearms continues to focus on dangerous and special offenders and organizations which include habitually active and violent criminals. These offenders include such groups as the Jamaican "posses" whose propensity for violence is documented in their homicides. In 1987, the majority of the 131 criminal cases that ATF prepared against 267 posse members alleged violations of the Comprehensive

Crime Control Act. During the arrest of those subjects ATF seized 518 firearms.

ATF will continue to solicit additional support of Federal, State, and local law enforcement authorities to participate in the task force approach, under the auspices of the Organized Crime Drug Enforcement Task Force (OCDETF) Program to combat the problem of Jamaican organized crime. ATF is currently involved in 23 Jamaican Organized Crime Task Forces nationwide. In addition, ATF has the latitude to redirect its other law enforcement resources.

ATF will also continue to be the clearing house for information as it relates to Jamaican organized crime for all law enforcement agencies.

10. The compilation, analysis and dissemination of statistics regarding the implementation of the Armed Career Criminal Act is essential to effective oversight and consideration of future program modifications. What is the current procedure by which BATF tracks career criminal cases and reports statistics? What are your recommendations regarding implementation of a formal system by which career criminal arrests, prosecutions and convictions could be tracked, compiled and reported? What joint efforts with the Justice Department can be instituted to facilitate the tracking of career criminal cases on the local, state and federal levels?

ANSWER: The Bureau of Alcohol, Tobacco and Firearms utilizes the Law Enforcement Management Information System (LEMIS) for the compilation, analysis, and dissemination of statistical information. LEMIS monitors the activity of special agents providing ATF with the ability to analyze and evaluate information on manpower utilization, resource allocations and employee productivity, required by management for the effective direction of enforcement operations.

LEMIS provides an analysis of investigations by defendant profile, charges, judicial status, and property seized. The reports generated from the information enables ATF to effectively and efficiently manage resources.

LEMIS is ATF's formalized system for the tracking of criminal arrest, prosecution, and convictions. The system, as it now exits, has been in existence since the early 1980's.

ATF has an excellent working relationship with other Federal, State, and local law enforcement agencies. Because of the excellent working relationship established by ATF, most investigations relating to the activity of Armed Career Criminals are worked jointly. These joint operations ensure that the fullest impact of the law can be brought to bear on their illegal activities. Because of these joint operations, ATF feels that LEMIS provides us with a tracking system which captures the statistics related to Armed Career Criminal activity.

At this time ATF does not have the computer facilities necessary to support a real-time interactive exchange of information through our own system. Presently ATF utilizes the Treasury Enforcement Communication System (TECS) which is operated by the U. S. Customs Service, as a conduit between ATF and other Federal or local law enforcement agencies. TECS allows access to the National Law Enforcement Telecommunications Systems (NLETS) and the National Crime Information Center (NCIC).

ENFORCEMENT OF DRUG LAWS

Senator SPECTER. Thank you.

The two subjects which I discussed with you before and are comprehended within this correspondence relate first to the World Bank, and the question that I want to pursue is somewhat in line with the subject matter you and the Chairman have been discussing about greater authority, and to focus, if time permits, on the loan which the World Bank granted to Mexico for $400 million on steel, especially in the context of the Senate resolution rejecting that. I know that the United States voted against the loan.

First, I want to take up the question of enforcement of the drug laws as it touches your department with the firearms aspect, and specifically, the enforcement with the armed career criminal bill which I believe has a unique opportunity to strike a very hard blow at drug sellers because it brings them within the career criminal bill for someone who has three major offenses, and then is found with a firearm, that person has a mandatory sentence of 15 years to life.

This is a new provision which came into effect in 1984. As you know, it has been very successful as Treasury has coordinated with the Justice Department, and last year we added some $10 million for 160 new positions. One of the concerns that I have turns on a response which you made that the additional positions funded for this fiscal year could not be continued into the next year, and I press the issue at this hearing because when the head of the department, the Secretary, discusses the matter in a committee of this sort, it does attract attention from many people in the field, and there may be greater emphasis given to this kind of a program where it has the imprimatur of the Secretary and pressure from the Senators on this committee.

REALLOCATING FOREIGN OPERATIONS FUNDING TO STATE PROGRAMS

My question to you, Mr. Secretary, turns on the issue of perhaps finding other sources of revenue from the foreign operations budget which will be extended to State. Although not your department, you certainly have an overlapping interest in the many fields, and a number of us are considering a reallocation of monies which are going for foreign aid to countries which are not now adequately restricting the flow of drugs from countries like Colombia and others to the United States, and in light of the budget constraints you have, I would be interested in your judgment on the desirability of reallocating some of those foreign aid monies to heavier drug enforcement as, for example, the career criminal bill which is administered by your department.

Secretary BAKER. Well, Senator Specter, I do not think that would be the right thing to do, if I might say so, because we have consistently paired back our commitment in the foreign area in order to, in times of severe budget constraint, fund some domestic programs to a greater extent.

The reason I say I do not think it would be the thing to do in this particular case is because while we were not able to totally staff the

BATF to the extent that some here feel is appropriate, we have significantly and substantially increased the staffing of that agency and the commitment to the career criminal program over the past 2 years.

Just so the record has the numbers, for firearms enforcement, which includes the armed career criminal program, we will have increased by more than 51 percent since fiscal year 1986, from $55 million and 884 full-time employees to $84 million and 1,122 full-time employees.

You mentioned Colombia. I think that some of the funding that goes to a country like Colombia can be helpful to us in the war on drugs. And I think some of it probably has been helpful.

But just as a blanket proposition, if you take that to its logical conclusion, we would cut out all foreign assistance, whether it was security or economic, and we would put it all into the Customs Service and the Coast Guard and the Bureau of Alcohol, Tobacco and Firearms.

Senator SPECTER. Mr. Secretary, that well may be a logical conclusion.

Secretary BAKER. And it may well be a very popular conclusion, Senator, but it would not be the right conclusion, in my opinion.

Senator SPECTER. Well, we are looking for the right conclusion. We are not oblivious to popular conclusions, but we are looking for the right conclusion, and it seems to me that so many of those countries have not done what they should have on restricting production of drugs; it is an enormous problem. We do not have to discuss that here.

Secretary BAKER. It is a problem.

Senator SPECTER. And I am well aware of the increases which have been made in the enforcement for armed career criminals, but my experience tells me that of all the programs now available to strike at the heart of drug sales in this country, you have to divide the problem up into a variety of categories, the overseas sources, the interdiction coming in, but once you have drug sellers, the armed career criminal bill gives more leverage to prosecutors than to any other.

And I personally do not believe it is a sufficient answer to cite the increases, even though they are large. And that is why I called it to your attention before we started the session today and call it to your attention now, because I believe there is a commitment by many of us here. It was Senator DeConcini's committee which came up with the funding for the extra $10 million, and Senator D'Amato and Senator Nickles and Senator Inouye, all of us are very, very concerned about it.

And as I say, I emphasize it here to catch your personal attention.

Secretary BAKER. Let me just add that I, too, am concerned about it. And it is a matter of balancing priorities and balancing interests.

If you take this to its logical conclusion and you say, okay, no more foreign assistance of any type, without regard to what that does to the United States in its position of economic and political leadership in the world, I am not sure the problem would not get worse, Senator. What you would be doing is cutting off some of these countries from access to capital which they will use to fund legitimate undertakings which will employ their people, which will, I think, lessen the incentive on the part of the countries to look at drugs as the sole cash crop of the country.

Senator SPECTER. I am not suggesting that we cut it off completely, but I am suggesting reappraising it. And it may well be that if we cut it some, and more with other countries, that it would be a carrot for them to do a better job.

WORLD BANK STEEL LOAN TO MEXICO

In the 2 minutes that I have left, Mr. Secretary, let me just touch very briefly on this issue of the World Bank and the $400 million loan to Mexico for their steel industry. And since we discussed this on March 1, that loan has been made. There was a resolution in the Senate which recommended against the loan. The United States took a position in opposition to the loan, but it was enacted anyway, and my question is, following up on your statement that we should have more say on how the money is spent, what approaches or options do we have, if any, to try to exercise more influence and control, perhaps by persuasion as well as by mechanical control, percentage control, to stop such a loan in the future, like the $400 million to Mexico on the steel issue?

Secretary BAKER. Well, I do not think you should judge the effectiveness of the United States in opposing loans for commodities in oversupply, Senator, on the basis of how many that get to the level of the executive board, because I happen to believe that we are able to keep a bunch of loans from getting into the pipeline to begin with.

We have a very strong policy which we have communicated not only to the multilateral development bank management, but to the other countries that have a large say in the operation of those banks, that we do not and will not support loans for commodities in oversupply which injure U.S. producers. We have made that very clear. I think everybody understands that now, and I think that the incidence of those loans is declining. I think there are less of those loans being made now than there used to be.

And I think we have been effective. And, without laying it all out here, the letter which our Assistant Secretary for Legislative Affairs wrote in response to your letter to us lays out the specific steps that we take as these loans come up and how we register our objections. We need to continue doing that.

But the main thing we need to continue doing is making sure that the United States remains the pre-eminent player in these institutions, because the minute you start talking about us not putting up our share of a capital increase, or pulling back, our influence will diminish and we will not have the ability which we do now have to influence the course and result of deliberations regarding these kinds of loans. I think that just goes without saying.

Senator SPECTER. My time is up.

Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Senator INOUYE. Senator Nickles?

MDB LOANS FOR AGRICULTURE

Senator NICKLES. Mr. Chairman, thank you very much.

Mr. Secretary, to follow up on Senator Specter's comments, he mentioned the steel loan for Mexico. I have mentioned to you in the past, and Mr. Conrow, the agricultural loans.

As you know, we passed a bill in the Senate you opposed which basically would prohibit these types of loans. It is not now part of the trade bill, and as a substitute for that, you have instigated a consultation process.

Could you tell me about that process and whether or not it is effective in working with some of the affected groups to make sure that our tax dollars are not used to subsidize competition?

Secretary BAKER. Well, are you talking about the consultation process now within our government, the working group, how we consider these loans? Is that it?

Senator NICKLES. Well, I do not want a long explanation, but let me just make a point. I understand your problem with my legislation. I also appreciate your statement saying that you are working to minimize these types of loans. But the fact is that the United States voted no on the steel loan, and we still had $400 million plus going to Mexico.

Since then, the consultation process began, and it was almost ignored as far as the loan going for phosphate reserves in Jordan. I see some staff shaking their head no, but I understood that the Interior Department opposed that loan, and Treasury was supportive of that loan.

Am I correct on that?

Secretary BAKER. I will let Mr. Conrow answer that since he is in the discussions.

INFORMAL CONSULTATION PROCESS

Mr. CONROW. Senator Nickles, that loan to Jordan on phosphates came up prior to the creation of this informal working group that came out of the discussions on the trade bill legislation.

Nevertheless, the United States did support the loan on economic and financial grounds.

I am not sure precisely how the other agencies in the government voted on it, but the consensus of the agencies, the vast majority of the agencies who reviewed it, did support the loan. There may well have been one or two agencies which within the government did express some reservations about it. That I cannot say at this point, but I will be glad to correct that for the record.

Senator NICKLES. It is my understanding that the Interior Department was opposed to it and the fertilizer industry was adamantly opposed to it, but their voices were not heard. The United States supported the loan, and that is the way it came to me.

I make these points just to emphasize that I hope that you take the consultation process seriously and that you do listen to these people. For those of us that sit on this committee and others that talk about funding the MDB's, it is very, very difficult to be supportive of banks when you find other countries or other governments undercutting our industry with our own money.

MDB LOANS TO PARASTATAL CORPORATIONS

In many cases we are talking about subsidizing government loans. We are not talking about the private sector, although I read your statement and I have heard you say it for years now, that we are trying to encourage private development. But in many cases you are supporting nationalized industries in other countries.

Secretary **BAKER**. We are moving the banks more and more toward private sector support, though, Senator Nickles. Yes, there are some loans that go out to parastatals, that is true. And until we are able to persuade the world that the free market economic system is the best in the world, I guess there will always be some parastatals.

Senator **NICKLES**. But Mr. Secretary, the point is that some of us do not think that nationalized industries are going to be very efficient.

Secretary **BAKER**. We do not think so.

Senator **NICKLES**. Well, I am not sure there is enough money for the U.S. taxpayers to be making loans—many of us do not want to do that in the United States, much less in Mexico or Brazil.

U.S. INFLUENCE IN INTERNATIONAL FINANCIAL INSTITUTIONS

Secretary **BAKER**. I understand that, but let me suggest to you that, again, if you take this argument to its logical conclusion, we will pull out of the international financial institutions, we will have no influence; these loans will go forward, there will be no U.S. influence on them, and they will go more often than not to parastatals and state-owned enterprises. There will be, I believe, an increase in the funding of commodities in oversupply, projects for commodities in oversupply.

So we are far better hanging in there and working within these institutions to bring them in the direction that I think, frankly, we are moving.

Yes, there are going to be a few loans every now and then that slip through, that we vote against and that we are not able to carry the day on, but that is not sufficient reason for us not to fund these institutions. We get a great deal of leverage out of this funding.

And let me just say one final thing about the Mexican loan. Yes, we voted against it because there was substantial opposition to it up here, but I want to tell you that substantial benefits to U.S. suppliers have and will come from that loan in the form of procurement. Caterpillar, United Engineering of U.S. Steel and others have been awarded major contracts with reference to it. The conditionality on it is, frankly, excellent. Yes, there was a resolution here in the Senate saying we should not support that loan, but that barely passed. There is strong support here in the Senate for that loan because the policy conditionality is good. It is our view that that is not going to injure United States.

NEW IDB HEADQUARTERS

Senator **NICKLES**. Mr. Secretary, I want to move to a different subject, and this concerns the IDB. I understand Mr. Conrow is going to be moving there to the Inter-American Development Bank.

I have been concerned about the amount of money for the headquarters. Mr. Secretary, we had a resolution in the Senate that dealt with the early retirement amounts—if my memory serves me correctly, about $200 million.

Looking at the report, can you tell me how much the building cost? They moved down to New York Avenue, I believe. How much did that building cost?

Secretary BAKER. That is a level of abstraction I do not get into, but maybe Mr. Conrow can answer.

Senator NICKLES. Is something like $225 million accurate, one of the most expensive buildings in Washington, DC, by far?

Mr. CONROW. I know the number was substantial. I could not say it precisely.

Senator NICKLES. I think that is close. I think on a square footage basis it may be the most expensive building in Washington, DC.

IDB HEALTH INSURANCE CLAIMS

Also, I read in one report—and I will put this in the record—that evidence from health insurance sources showed in a single year bank employees submitted 76,000 claims for health insurance benefits, an average of 35 claims per employee, on and on.

[The information follows:]

EXCERPT FROM REGARDIES MAGAZINE APRIL 1988 ARTICLE ENTITLED "THE SALSA SOAP OPERA"

If the cost of the bank's new headquarters wasn't enough, the bank is run like a gentlemen's club. Long lunch hours, extravagant perks and a view that there's more to life than balance sheets sum up life at the IDB. Evidence from health insurance sources shows that in a single year bank employees submitted 76,000 claims for health insurance benefits—an average of 35 claims per employee. Disputes between labor and management at the bank give new meaning to the word "overindulgence." For example, the bank's employee association battled management over the size of the health spa for the new building and went into a rage when management refused to staff it with full-time help.

REFORMS IN THE IDB

Senator NICKLES. Is that accurate?

Secretary BAKER. Without quarreling with those numbers, Senator Nickles, we would like to see administrative reforms made in that bank before we talk about increasing the size of that bank.

Senator NICKLES. But actually, you are talking about increasing the size of the bank, are you not?

Secretary BAKER. No.

Senator NICKLES. No increase in IDB?

Secretary BAKER. No, sir.

Senator NICKLES. Not for next year?

Secretary BAKER. No, not unless we get the changes that we have asked for, the reforms in policy-based lending and administrative reforms. Frankly, we think President Iglesias will bring the administrative reforms, but unless we get those and get the reforms in the policy toward lending and get a greater say in how that money is spent, then this administration will not support an increase for a larger Inter-American Development Bank. And we have not one penny in our budget this year, not one penny, for the Inter-American Development Bank.

Senator Nickles. Well, Mr. Secretary, let me encourage you again on these reforms, and particularly administratively. I am upset when I see money going for administrative costs. We talk about the good cause of trying to help our less developed and less fortunate neighbors, certainly on this continent, and we wish to do so. But when you see so much of it squandered administrative to a building that is in excess of $200 million in Washington, DC, as well as the $150 million severance plan of the World Bank, you must ask yourself if it is wisely spent.

I think this is embarrassing. Certainly it should be to the World Bank or to the IDB. And I would just encourage you, Mr. Conrow, in your new position to work aggressively to try to clean up this type of thing.

Secretary Baker. Let me just say we agree with you, Senator Nickles, that reforms are necessary.

Senator Nickles. Thank you very much.

Thank you, Mr. Secretary.

Senator Inouye. Thank you.

Senator D'Amato?

Senator D'Amato. Thank you, Mr. Chairman.

PREPARED STATEMENT

I would ask permission to have my statement put in the record as if read in its entirety.

Senator Inouye. Without objection, so ordered.

[The statement follows:]

PREPARED STATEMENT OF HON. ALFONSE D'AMATO

U.S. Senator From New York

Mr. Chairman, I welcome Secretary Baker to our first budget overview hearing for fiscal year 1989. Today's topic—the multilateral development banks and their importance to the world economy—is a critical issue for the stability of both our domestic and international banking systems.

Three countries, in this Hemisphere—Mexico, Brazil and Argentina—account for two-thirds of the world's debt. As we know all too well, a good portion of this debt is owed to U.S. banks, many in my home state of New York.

The administration has requested $1.32 billion for multilateral development banks for fiscal year 1988. This is a 9.8-percent increase from the fiscal year 1988 level of $1.2 billion. The request covers only the regularly scheduled MDB installments. There is no funding, however, for MDB funding shortfalls in this budget.

The World Bank, which offers loans worldwide, and the regional banks, such as the Inter-American Development Bank, the Asian Development Bank and the African Development Bank, lend billions of dollars to developing nations. During years of high inflation, loans were made to many Third World nations under the assumption that growth rates would continue to exceed inflation rates. By 1982, the tremendous repayment burden of these loans to many borrower nations finally surfaced. Frankly, blame for this problem can be spread among all the participants. Loans were made by American banks with too little forethought. Borrower nations happily accepted the loans at high interest rates with little consideration of the future consequences. The multilateral development banks neglected adequately to monitor and react to the developing problems.

Mr. Secretary, the plan you introduced in the fall of 1985 brought some hope to lender and borrower nations, but it has not yet had the impact you and I hoped for. For the most part, the debt continues, a potential time bomb.

It would be tragic to lose the democratic gains that have been made in this hemisphere, and eagerly promoted by our government, because of the burgeoning debt.

The problem of Third World debt and its possible impact on the health of our banking system is a potentially disastrous problem that should continue to merit the close attention of Congress and the administration. I look forward to working closely with you, Secretary Baker, and with the Treasury Department on this important matter.

Thank you, Mr. Chairman.

TRANSFER OF COAST GUARD TO TREASURY DEPARTMENT

Senator D'AMATO. Secretary, it is nice to see you.

Secretary BAKER. Senator, it is nice to see you.

Senator D'AMATO. Mr. Secretary, let me just start by saying I want to commend you and the department as it relates to the efforts in terms of drug interdiction and enforcement.

I think it is my opinion, an area of concern that has not received the kind of attention that the gravity of the situation demands, notwithstanding that and the budget implications and the number of agencies, particularly the Customs Agency which have done, I believe, an outstanding job, so let me commend you.

Secretary BAKER. Thank you.

Senator D'AMATO. Mr. Chairman, in legislation I believe that you supported and just about all the members of this committee, sponsored by Senator DeConcini and myself, comprehensive drug bill for this year, we have called for the transference of the Coast Guard to the Department of Treasury where it once resided. I would think, Mr. Secretary, without it looking like a power grab on your part, that it certainly makes more sense that it not be under the auspices of the Transportation Department. It has little in the way of any kind of law enforcement, and certainly when we talk about the integration of the effort as it relates to Customs and the Treasury aspect and Coast Guard and coordinating that effort, it would seem to me it definitely should be under the jurisdiction of Treasury, and I am wondering if you care to comment.

Secretary BAKER. Well, it used to be under the jurisdiction of Treasury, Senator D'Amato, as you know, and so did the Postal Service. Please do not give us the Postal Service.

Senator D'AMATO. I know that.

I would like to see you take a position that I understand may not be the normal course. We will have some hearings on this, and we would be interested in getting your thoughts.

Obviously Transportation does not want to lose something under their jurisdiction. I suppose on the authorizing committee and appropriation committee of Transportation and the ranking member of Transportation, notwithstanding that, this seems to me is an inappropriate place for it to be. We continually have this game as it relates to what is going to be funded, what is not going to be funded and OMB uses it in a manner in which to put Congress in a difficult place, and that drug war is being hampered as a result of that.

I hope we could get your strong support for a move that really makes sense, the integration under that one department, particularly as it relates to this important area.

NONCOMPLIANCE WITH DRUG LEGISLATION

Mr. Secretary, let me touch on an area of concern that I think is going to be coming up rather soon, a resolution as it relates to Mexico and its noncompliance as it relates to the area of drug enforcement, and there will be, I think, a very heated battle as to whether or not we should certify them as the administration has called for.

I am not going to ask you to offer an opinion, I think as a result of some of your testimony, but let me say there is frustration in the Congress and in the public domain as it relates to our posturing that these countries are cooperative when they are doing little, if anything. And I say this to you because as a result of your own knowledge and contacts with the various heads of state, I think you are going to see increasing pressure being used by the Congress as it relates to the kinds of actions that would cut off aid to countries like Mexico. And I for one will be supporting that legislation.

Let me tell you why. I think at the very least it will give to the administration, yourself and to our President, the ability to give to Mexico and other countries a very clear understanding that the Congress of the United States is not satisfied with lip service in the drug war, and notwithstanding our possibly decertifying, the President still has under that legislation the ability to override because of other national security issues our determination.

What I am suggesting is that it may be important to impress upon not only Mexico but others that this is not business as usual.

Secretary Baker, I share with you your feeling, but I do not think many of these countries think that we are serious. They view this as domestic political consumption for the American people, and administration after administration after administration, when it has come to the actual business of enforcement, et cetera, or taking action, just will not do it. We have done that with the Japanese on trade matters for years. Why should they ever believe that we are really serious when we talk about the unfair practices? We say we are going to take action, and year after year after year there has been little followup, and so when we do take an action, they stand in horror, my God, because after all, we have entrapped them into this belief.

Mr. Secretary, I say to you I think we have reached the point, it is outrageous, Brazil is selling millions of dollars of arms to Libya. The question is do we use our position in multidevelopment banks to say no, we are not going to sanction those kinds of loans if these are the activities, whether it be drug dealing or supporting states as it relates to Libya, with respect to arms sales to them? Do we use that clout?

I think, Mr. Secretary, you should understand that this is not just for political consumption. These battles are going to become increasingly frequent, and I think that the gravity of the situation is something that should have your personal attention.

Secretary BAKER. Well, it does, Senator D'Amato, and I appreciate your opening remarks about what our department has done in the war on drugs because I really do think that we have done a good job, not just with the Customs Service, but frankly, with the Internal Revenue Service and with the Bureau of Alcohol, Tobacco and Firearms, and the Secret Service as well.

The issue you raise is a very difficult one. It is a presidential issue. It is a decision for the chief executive of the United States to make. He has made it, and I support it.

I think you have to balance what kind of progress you might get if you decertify versus what progress you might get if you think a country is attempting to do the right thing and making some progress, but perhaps not as much as you would like, and you go ahead and certify, and you keep working with them. It is not unlike the point I was making to Senator Nickles: you can be far more influential and effective if you are working within these banks than if you pull out of these banks.

As far as using our clout in the banks, on a purely political basis, we have never done that. The United States has never done that. Nor do other countries, if I may say so. We try to look at these things on economic grounds, which is what I think we ought to do, and I really do believe we should continue to do that because otherwise we will find ourselves isolated and on the outside, and you will see some of these countries selling a lot more arms.

So I understand what you are saying about bringing pressure to bear on a country that sells arms to Libya. I think there are other ways to do that than to try to do it through the multilateral development banks. I do not think that is the most effective way to do it.

DECERTIFICATION

Senator D'AMATO. Well, Mr. Secretary, I think the point I am attempting to make is that I think that is a good likelihood, that the decertification as it relates to Mexico and some of the other countries, may very well pass, and I would suggest that maybe it should not be viewed as a blow against the administration or the President and that which he seeks, because obviously the President is seeking to bring about the cooperation of countries like Mexico and others in this problem of drugs and the epidemic of drugs coming into this country.

What I am suggesting is that it may give him a window of opportunity to say to his counterparts, and for those in the administration, including yourself, who deal with those in the Mexican government and others, that this is not a time where we can just disregard the problem, that you must make more progress. It is the clear message that comes from the people of the United States and the Congress of the United States. And so I view it not as going against the President but rather giving him an opportunity to say look, we will override this, but you have got to demonstrate more in the way of real commitment to this.

I am not going to go into cases and chapters and verse, but I would just suggest that it not be viewed, because I think it would be a terrible disservice to the President and to the country, that we are attempting to establish as something against the administration or against the President, but rather, to give him a tool to carry forth his message of seeking cooperation.

Secretary **Baker**. I understand that.

U.S. TRADE WITH JAPAN

Mr. Chairman, could I put in the record something with respect to the Senator's analogy to trade matters with Japan.

Al, I would probably grant to you and acknowledge that we may have been somewhat lax in the first 4 years or so, maybe 4½ years of this administration on these matters. But I think you would probably agree with me that we have been fairly aggressive in enforcing the unfair trade laws of this country in the last 3 years against Japan and everybody else.

This President has granted more import relief than any President in history. He is the only President to self-initiate unfair trading cases against our trading partners. The Japanese, contrary to I think the suggestion in your comment, have cooperated with us in some areas in a very, very meaningful way.

In the area, for instance, that I have the most interest in, the macroeconomic policy area, the Japanese have instituted some very major changes in the way their economy works. In doing so, they have increased substantially their domestic demand, changing the nature, in effect, of that economy. This will help us and is in fact now helping us resolve the big imbalances that exist with the big trade deficit of the United States and big trade surplus of Japan. We see both of those coming down.

Our deficit is coming down, their surplus is coming down. We just announced yesterday settlement on an issue that I believe the industry will find satisfactory: getting access for our construction industry people to Japan. They settled on that issue, frankly, because they knew we were serious about initiating a 301 case if they did not open up. I guess that makes the point.

Senator **D'Amato**. Yes, Mr. Secretary, that is exactly the point. And I think it took some strong action on our part, maybe it shocked them initially.

Secretary **Baker**. But the point I am making is that we did do it. And we did it in a negotiated way, and we got it done to the vast benefit of both countries as opposed to having to resort to some sort of retaliatory action.

Senator **D'Amato**. Thank you, Mr. Chairman. Thank you, Mr. Secretary.

Senator **Inouye**. Thank you.

WORLD BANK FORESTRY PROJECTS

Mr. Secretary, I would like to touch upon the environment, if I may. As you are aware, this committee has repeatedly voiced its concern that the banks and more particularly, the World Bank, has taken very little account and shown very little sensitivity to the adverse effects of the environmental and social policies.

According to the World Bank's annual report for 1987, it is, and I quote, "the world's largest single source of funding for tropical forest conservation and development." And this report states that, "the bank will more than double its volume of lending for environmentally sound forestry projects," from $152 million in fiscal year 1987 to $350 million in fiscal year 1989. Yet at the same time that this has taken place, the increase in funding, other bank development loans, and most notably, the project aimed at clearing the Brazilian rain forests have caused the destruction of tropical forests at a rate far exceeding that of bank-sponsored conservation efforts.

How can you reconcile this obvious contradictory approach to the problem of tropical forest preservation?

Secretary BAKER. Well, I think the answer, Mr. Chairman, is that in the past the bank did not pay much attention to those concerns, if I may say so. I think you know that I have a personal interest in the environment, and I have been personally involved in discussing the issue, not only with President Conable, but with others in the system. I have questioned some loans for cattle raising in Africa and forest projects in South America. We have gotten the bank to highlight environmental concerns in its report on the General Capital Increase. We have gotten them to agree that they are going to implement certain environmental standards. The project I believe you are referring to is the Polonoreste Project in Brazil. I believe those things were started, frankly, when the bank had little if any concern about environmental concerns. I think they have more now. They have established staff positions, they are putting environmental experts on the payroll; 45 of them now are authorized, I believe, the equivalent of 18 consultant man years. They have assigned experts to each of the bank's four regional offices, and the specific language in the bank's report on the General Capital Increase provides for additional emphasis on the need for better management of human and natural resources, integration of environmental work in the country development strategies, and the evaluation of environmental costs of projects.

So I think the bank is now getting serious about the environment, when they say an additional $200 million or so will go for environmentally sound forestry projects. It will be in our interest to see that they do not go forward with projects that are not environmentally sound.

MDB TREATMENT OF INDIGENOUS PEOPLE

Senator INOUYE. We have been very concerned about the lack of sensitivity demonstrated by the MDB's on the treatment of indigenous or tribal peoples.

Have we seen any change in the policy relating to these indigenous people?

Secretary BAKER. I think that is all a part of the enhanced environmental concern that you see from the World Bank, Mr. Chairman, and I might just add——

Senator INOUYE. Well, I can see the concern. But have we seen any change?

Secretary BAKER. Well, I think we have.

Mr. Conrow tells me that they are reviewing and reassessing transmigration projects in Indonesia. I said a minute ago, Mr. Chairman, that I was personally interested and involved in environmental matters. I should also add for the record that we never would have gotten here without your concern and the concern of Senator Kasten, and it is just another example, I think, of the way in which this committee and the administration have worked together to further sound banking practices on the part of the MDB's. But we really are committed to this. We will continue to work with the committee, with committee staff, to try to move the MDB's toward greater concern for the environment because we share that.

MDB TREATMENT OF WETLANDS

Senator INOUYE. Well, I am trying to demonstrate our concern for these questions, but, for example, the World Bank and all of the MDB's have promised that they will preserve wetland habitats, and yet reports would seem to indicate that these wetland habitats are being daily wiped out.

Are we doing anything to convince these people that there should be a change in the policies?

Secretary BAKER. Well, I think the bank is at least getting started, Mr. Chairman, in helping develop and implement plans for the management of such resources in the borrowing countries—for instance, wasteland rehabilitation in India. They are working with task forces on deforestation and mitigation of natural disasters. I cannot point to a specific wetlands project. Maybe Mr. Conrow can.

But that is the kind of environmental and ecological concern that we would be interested in. I am not aware of any example of wetlands eradication or filling in wetlands for development either, but there may be some, and if the staff would let us know about it, we will take it up with the bank.

U.S. FUNDING SHORTFALLS TO IDA

Senator INOUYE. Under IDA rules, I am going to the International Development Association now, all donor countries are entitled to reduce proportionally the contributions to IDA when any donor country does not pay its full contribution.

We have been advised that Germany, Kuwait and Saudi Arabia have responded by proportionately reducing their contribution when we found ourselves in arrears.

What effect will this have on IDA programs?

Secretary BAKER. You are quite right. They did reduce because we were $43 million short in a total contribution of something in the neighborhood of $950 million; so they reduced proportionately. It will have little, if any, effect on IDA programs because it is so small, but it points up, I think, the necessity for us to follow through on our commitments.

WORLD BANK GENERAL CAPITAL INCREASE

Senator INOUYE. What is the likelihood that the International Bank for Reconstruction and Development will approve the General Capital Increase, the GCI?

Secretary BAKER. Well, I think there could be some question, Mr. Chairman, if the United States does not approve it. On the other hand, other countries may get together and go forward, notwithstanding our failure.

Perhaps the more likely course would be that if we delayed ours, they might conclude that since the United States has the largest share in the bank and it is not going to move this year, then perhaps they would delay theirs as well.

These countries, of course, operate under a different system than we do, and when they subscribe to a General Capital Increase under the parliamentary system, they are usually able to produce the legislation within 1 year. They understand our process, and they understand our system here. I think it would be extremely regrettable and unfortunate if we are not able to approve the GCI this year, and it may well result in the overall General Capital Increase not being approved.

WIDER COUNTRY PARTICIPATION IN THE ADB

Senator INOUYE. In fiscal year 1989 you are not making any request for the Asian Development Bank because we have already completed our payments, but what are we doing to encourage greater participation on the part of the industrial and creditor nations in Asian development efforts, nations like Korea, Singapore, Taiwan and Japan?

Are we encouraging them to put in a bit more?

Secretary BAKER. Mr. Conrow advises me that we have a blue ribbon panel in the process of being formed, Mr. Chairman. Jack Hennessey, I think, is going to be Chairman. The panel will look at the future course and direction of the bank with reference to the participation of those very countries that you mentioned.

U.S. FUNDING SHORTFALL TO IDA

Senator INOUYE. I would like to go back to IDA.

You said it was a small amount, a small percentage.

Secretary BAKER. $43 million.

Senator INOUYE. Out of $900 million or so.

Are you suggesting that will have very little or no effect upon IDA programs?

Secretary BAKER. I do not think it will have a large effect on IDA programs, no, sir.

Senator INOUYE. He had a suggestion which I think is too drastic.

Secretary BAKER. That happens to me a lot, too, Mr. Chairman.

U.S. FUNDING SHORTFALL TO THE IFC

Senator INOUYE. The International Finance Corporation is a member of the World Grant Group, and the IFC board of governors ratified a capital increase in December 1985 raising the capital of the corporation to $1.3 billion.

For fiscal year 1989 the administration is requesting $35 million in budget authority for the IFC. The IFC's retained earnings in 1987, according to our report, were the highest in its history.

In view of this record, does the IFC really need additional contributions from the United States or other donors?

Secretary BAKER. Mr. Chairman, the short answer is yes, we think they need it, and in fact, I was just trying to make sure that I had the right number. We believe that our shortfall to the IFC which will be included in our 1990 budget will be about $50 million, and we do believe that they need the money.

U.S. ROLE IN PANAMA ECONOMY

Senator INOUYE. Finally, if I may ask a few questions on Panama.

Notwithstanding the resistance and the violence at this stage, I think all of us will agree that someday soon Manuel Antonio Noriega will be leaving Panama, and I think there is a lot of speculation as to the role that the United States will play in the post-Noriega period.

Do you see any role for the United States in helping build up or rebuilding the post-Noriega Panama economy?

Secretary BAKER. Yes, sir, I do, and I know personally that the President does as well. In fact, we had a discussion of this yesterday. There is no concrete proposal that I am prepared to offer here except to say that the administration is conscious of what is happening to the economy of Panama as a consequence of what is going on down there; conscious particularly of what is happening to it as a financial center, a banking center; conscious, obviously, of our close relationship over the years with the Panamanian people; and conscious of our security interest vis-a-vis the canal and other security interests in Panama. It is an issue that certainly we are aware of and focusing on.

Senator INOUYE. What is the condition of the banking system now in Panama?

Secretary BAKER. Closed.

Senator INOUYE. It is that bad?

Secretary BAKER. Yes, sir, it is totally closed.

Senator INOUYE. What steps can we take to ensure that the assistance we will provide to support the banking system under this new government would not be used to back the claims of narcotics traffickers and money launderers?

Secretary BAKER. Well, I think we would want to take such precautions as might be required, Mr. Chairman. We would obviously want to know with whom we are dealing. We would want to know specifically how the funds were going to be applied, where they were going to be used, and what the end uses would be.

SUBMITTED QUESTIONS

Senator INOUYE. Before we part, I have been asked to convey to you the regrets of Senator Kasten. He wanted very much to be here because of the importance of this meeting, but as you know, he is at the present time presiding at another very important gathering, and apparently the meeting is still continuing. But he has asked me to have his submitted questions included in the record, and without objection, those questions will follow mine.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR INOUYE

INTER-AMERICAN DEVELOPMENT BANK (IDB)

SENATOR INOUYE: The primary stumbling block holding up agreement on a Seventh IDB Replenishment was the proposal to increase the size of the voting majority required for loan approval in order to give donor countries a greater say in the decision-making process of the Bank. The intent was to achieve administrative and policy reforms in the Bank.

What measures could the new President of the IDB take to gain concessions from the United States on the voting issue in the IDB? Are there a specific list of Administrative and policy reforms which he could institute to satisfy the Administration's concerns and, thereby, break the voting impasse?

SECRETARY BAKER: It is very difficult to give a specific list of changes and reforms that would guarantee our goal: a more effective and efficient IDB. We obviously have our own ideas as I have already indicated, but they include a change in decision-making as a "final check" on loan quality and appropriate conditionality. We are eagerly awaiting President Iglesias' actions and proposals to see if they would provide the basis for a reform of the institution, and a resumption of replenishment discussions.

SENATOR INOUYE: The United States believes that a number of reforms and changes are needed in the IDB before an expanded role and a significant increase in funding for the Inter-American Development Bank can be supported. What are the specific reforms the United States is seeking? What is the opposition to these reforms? Are there other ways of achieving the objectives of these reforms?

SECRETARY BAKER: We proposed a four point package of changes we considered essential to a replenishment agreement that would provide for an expanded role for the IDB. This package included:

-- creating individual country strategies/programs to guide IDB lending;
-- adopting appropriate policy conditionality in Bank lending and development of a program of well-defined, well-targeted, fast-disbursing loans (sector lending) not exceeding 25 percent of total lending;
-- restructuring operating departments to do country programming and sector lending; and
-- giving appropriate weight to the views of countries which supply the usable resources.

We were prepared, if agreement could be reached on this package of changes, to seek a significant replenishment of Bank resources that would have supported a lending program of from $20 - $25 billion during the period 1987-90. This would have represented a doubling of lending from the Bank's hard loan window and a tripling of lending from the soft loan window when compared to the sixth replenishment. While we envisioned a program of some policy-based sector lending, the majority (at least 75 percent) of seventh replenishment lending would still be for projects.

Despite almost 2 years of negotiations, agreement has not been reached on a replenishment of the IDB. With no progress in sight on the voting issue, negotiations were halted in October of 1987.

Up to that point substantial progress had been made. On a general level, the shareholders of the IDB were able to agree on:

-- a lending program of $22 billion;

-- policy-conditioned sector lending accounting for 20 to 25 percent of the lending program; and
-- a concentration of concessional resources from the Fund for Special Operations (FSO) on the poorest countries.

On other issues of the package such as country programming, sector lending and reorganization, there was agreement conceptually and tentative agreement on specifics with at least some parties. Once the voting issue is resolved, we believe final agreement could be reached quickly on:

-- the operational definitions and procedures to guide the formulation of country programming strategies;
-- the operational definitions and procedures to guide sector lending; and
-- a reorganization of the Bank's internal structure to facilitate preparation of country programming strategies and sector lending activities.

In the end, before these issues could be finally resolved, the suspension of negotiations took place when the Latin countries determined that they were unable to come to agreement on a U.S.-proposed compromise for restructuring voting arrangements in the Board of Directors.

For the last two years we have discussed numerous alternative approaches to achieving our objectives and have come close to an agreement on all except the voting change.

SENATOR INOUYE: The economic and social development of Latin America is of particular importance to the economic and security interests of the United States.

Have you calculated the effect that a collapse of the IDB would have on U.S. economic and security interests? Is such a collapse not likely to be the result of a prolongation of the voting controversy?

SECRETARY BAKER: The IDB is not likely to collapse. I am confident that, together with the new President, we can find a way to come to an agreement on how we can have a larger, more efficient and more effective IDB.

You should be aware that even without a seventh replenishment the IDB still has substantial resources to conduct its traditional project lending program. The Bank would have available for lending approximately $2.5 to $3 billion per year, depending on exchange rate movements. At current exchange rates, the Bank has a total of $7.7 billion to lend over the 1988-90 period; or $2.6 billion annually. This compares with $3 billion lent in 1985 and 1986 and $2.3 billion in 1987.

SECRETARY BAKER AND THE MEXICO DEBT SWAP

SENATOR INOUYE: The disappointing outcome of the recent Mexico debt auction has raised questions within the banking community as to the viability of this option in reducing LDC foreign liabilities. Mexico managed to reduce its debt by only $1.1 billion instead of the $10 billion it had hoped for. Nevertheless, you are quoted today in your prepared statement as saying that the plan "provides an example of an innovative, voluntary debt conversion technique" of the kind you expect to see more of in the future.

What gives you such optimism in the face of an apparent disaster?

Do you see any need for the Treasury to reevaluate its expectations of market interest in debt-swap arrangements?

SECRETARY BAKER: We do not consider the outcome of Mexico's debt exchange offer a failure. Mexico reduced its external debt by $1.1 billion; its interest payments were reduced by $1.54 billion over a 20-year period. These are not trivial amounts. In any case, the Mexican conversion was never envisioned to be a definitive solution to Mexico's external debt problem.

With regard to your second question, we believe that this mechanism is a useful market-based option within the existing debt strategy.

STRUCTURAL ADJUSTMENT LENDING

SENATOR INOUYE: In 1980, the World Bank, in response to a rapidly worsening international situation and to the resultant difficulties faced by many developing countries, introduced a new lending instrument: Structural Adjustment Lending (SAL). As defined by the Bank, SAL is "non-project lending in support of programs, policies, and institutional change necessary to modify the structure of an economy so that it can restore or maintain its growth and viability in its balance of payments over the medium term."

Do you feel the Bank has begun to stray from its original mandate to provide direct investment to specific development projects?

SECRETARY BAKER: Policy based lending -- SALs and sector loans -- and traditional project lending should be viewed as complementary rather than competitive. Clearly the success of most projects depends heavily upon the soundness of a borrowing country's macro-economic and sector policies. However, traditional project lending naturally remains important. We believe the present "mix" of loan types in the World Bank is about optimum.

The demand for traditional project loans has been somewhat reduced in recent years by the tight domestic budgetary situations in many developing nations. We do not expect to see this factor change significantly in the near future.

Finally, it makes little sense for the World Bank to help expand productive capacity or infrastructure in a country which already has unused facilities due to shortages of spare parts and other imported inputs. Sector loans can be especially helpful in reactivating existing assets under these conditions, provided they are linked to the implementation of significant reforms.

SENATOR INOUYE: How does Structural Adjustment Lending contribute to development?

SECRETARY BAKER: Structural Adjustment Lending (SAL) began in WBFY 1980 in response to the severe balance of payments problems caused by the second oil price shock, high inflation in many industrial countries, and adverse terms of trade.

SALs support major policy changes and institutional reforms. These measures aim to achieve efficient use of resources, and thereby contribute to a sustainable balance of payments in the medium and long term, while simultaneously maintaining economic growth. SALs also assist in meeting the transitional costs of structural changes in industry, energy, and agriculture by augmenting the supply of freely usable foreign exchange for items such as foreign spare parts. Finally, SALs act as a catalyst for the inflow of other external capital to help ease the balance of payments.

SALs generally promote reforms in the four areas of trade policy, mobilization of domestic and foreign resources, efficient use of domestic resources, and institutional reforms. These changes usually encourage open, competitive, private sector oriented economic systems in borrowing countries. SALs, for example, generally provide for the phased elimination of subsidies on agricultural inputs, and for higher producer prices for farmers.

All SALs are carefully designed to avoid causing increased economic hardship to the poor. One approach is to target social benefits more accurately to the poor. Possible approaches can include food stamps, labor intensive job creation, and special funds to assist the poor as well as those persons released by overstaffed public sector industries while they are seeking new employment.

WORLD BANK POLICY-BASED LENDING

SENATOR INOUYE: You have indicated that the Treasury Department has harbored concerns that the policy-based lending of the World Bank may adversely effect the poor in developing countries. Could you elaborate on what you believe these effects on the poor to be? What ways can you suggest to lessen this impact?

SECRETARY BAKER: Adjustment is a difficult process but one which is necessary if a country faces unsustainable fiscal and external imbalances. The institutional/political difficulties, social costs, and financial requirements to sustain the adjustment process can be extensive, and in the short-run adversely affect broad segments of society including the poor. Yet failure to adjust in a planned, rational manner is far more detrimental to the poor in the long-run.

In most cases, the poor will benefit from reform policies to improve incentives, reduce economic distortions and stimulate sustainable growth. In this regard, it should be noted that the distortions inherent in many developing country economies tend to discriminate against rural poor (e.g., food subsidies and overvalued exchange rates generally benefit better off urban consumers).

In addition, measures can be taken to ease transitional costs of adjustment on the poor. These include refocusing social expenditures toward the poor and well-targeted compensatory programs. Two recent World Bank projects, which the United States and all members of the Executive Board supported strongly, provide good examples of measures which help protect the poor during periods of adjustment:

(1) On January 16, 1988, the World Bank Board approved a $10.6 million "Priority Works Project" in Ghana as part of a broader program supported by the Bank and other donors to mitigate the costs of adjustment. It will provide about 10,000 man-years of employment spread over two years, particularly benefitting poor unemployed workers within urban centers. It should be noted that Ghana's reform effort, instituted in 1983, is one of the most ambitious and sustained in Africa.

(2) On March 1, the Board approved a $27 million "Second Emergency Social Fund Project" in Bolivia. The project--which is also co-financed by several other donors--will finance a range of small-scale subprojects sponsored by municipalities, community organizations, and NGOs. Benefits will include about 20,000 man-years of employment, with about 400,000 social assistance beneficiaries receiving food, improved health care and other services. The operation will reinforce an initial $10 million project approved on June 23, 1987, and targeted to those

suffering most from the effects of Bolivia's economic crisis, particularly those affected by the collapse of the mining industry.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

SENATOR INOUYE: On April 30, 1988, the World Bank's Board of Governors will be asked to vote on the General Capital Increase of $74.8 billion approved by IBRD's Board of Directors on February 19. The United States Congress must pass authorizing legislation before American representatives to the Board will be allowed to vote.

What is the likelihood that the IBRD's Board of Governors will approve the General Capital Increase? What funding decreases does the administration propose for other MDBs to offset the World Bank capital increase?

SECRETARY BAKER: Approval of the IBRD's proposed General Capital Increase (GCI) is now, to all intents and purposes, a virtual certainty.

The cost of the GCI's paid-in component is only $70.1 million annually over six years. This level of funding is fully compatible with the United States simultaneously meeting the current year's obligations to the other multilateral development banks.

INTERNATIONAL MONETARY FUND

SENATOR INOUYE: Traditionally, the IMF and the United States have supported structural adjustment programs in developing countries which have focused on restraint of consumer demand. These include restrictions on imports and a rechanneling of scarce capital resources into productive, often export driven, sectors of the economy.

Would you explain why the Administration's unwillingness to boost the falling value of the dollar does not undermine its structural adjustment strategy by making imports of American-made goods increasingly attractive to countries least capable of paying for them?

Do you believe that the industrialized nations have a role to play in the sustainability of IMF structural adjustment programs?

As a spur to economic growth among the LDCs would the Treasury Department support linking IMF conditionality arrangements to trade concessions by the industrialized nations? If not, why?

SECRETARY BAKER: The United States has been a leading advocate of structural reforms as part and parcel of its growth-oriented approach to the debt strategy. In this regard, we have proposed a number of measures to strengthen this structural orientation which can lay the basis for sustained growth in debtor countries.

At the IMF and World Bank Annual Meetings last year, the United States proposed several changes to IMF-lending policies that would enhance the structural elements of its programs and enable program countries to sustain their adjustment efforts. Primary among these proposals was the External Contingency Facility which is designed to help cushion adjustment programs from the effects of unforeseen, adverse external developments such as weaker commodity prices, lower export volumes, natural disasters, and sustained higher interest rates. I am pleased to report that the IMF Executive Board and Interim Committee have agreed to incorporate external contingency mechanisms into Fund programs and encouraged the Fund to develop the operational modalities of the new combined compensatory and contingency financing facility.

The United States also proposed reforms designed to enhance the structural element of IMF-supported programs. Specifically, the United States suggested that IMF lending policies in longer term stand-by and extended arrangements should be modified by shifting to semiannual performance critieria and disbursements and adding structural performance criteria. These reforms will assist many countries in implementing difficult, longer-term structural reforms that provide the basis for sustained growth.

The major industrialized countries have been playing a major role in ensuring the sustainability of IMF structural adjustment programs through economic policy coordination. This process significantly enhances the prospects for recovery in developing countries by increasing non-inflationary global growth and providing markets for developing country exports. Moreover, by addressing external imbalances, economic policy coordination seeks to relieve the underlying causes of protectionist pressures in the major industrialized countries.

The United States has also been working actively to ensure the continuation of commercial bank flows in support of developing country adjustment efforts. In addition to a number of U.S. regulatory and tax changes to facilitate debt conversions, we have been emphasizing a diversity of options for commercial banks and innovative financing techniques. The "menu" approach to commercial bank financing provides a vital mechanism for sustaining commerical bank support and assisting the return to creditworthiness. Moreover, we have been encouraging the international financial institutions to provide their support for innovative financing techniques. For example, we are encouraging the World Bank to provide technical advice for debt/equity and debt/conservation swap programs. In addition, the recent Mexican debt exchange offer is yet another innovative technique, which can increase flexibility for dealing with the current stock of debt.

While you are correct in pointing out that the decrease in the dollar from its peak level in 1985 has improved U.S. competitiveness, this should not undermine our efforts to increase structural adjustment efforts in developing countries.

First, the focus of the structural reform effort is to make the economies of the developing countries more efficient and growth-oriented by improving incentives to work, save and invest and by increasing reliance on market forces to allocate resources. The benefits from such measures to the developing countries do not depend on exchange market developments.

Second, the depreciation of the dollar since 1985 has in large measure been in terms of the currencies of other major industrial countries, particularly Japan and Germany. Consequently, developing countries will be able to acquire needed foreign goods at less cost to their limited financial resources by switching to U.S. producers who have become more competitive. Moreover, as the currencies of many developing countries have depreciated against the dollar, their domestic producers have not experienced reduced competitiveness as a result of the dollar's depreciation. Indeed, a more pressing problem for many developing countries is a loss of competitiveness due to the failure to allow their currencies to adjust adequately despite high inflation rates (i.e., their currencies have appreciated in real terms and have become overvalued).

Finally, financial constraints have played a much more important role in limiting the ability of developing countries to import. In practice, this has forced developing countries to ration scarce foreign currencies and control the level of imports regardless of exchange rate/competitiveness considerations.

The United States has been encouraging the IMF to include trade liberalization as part of its programs. This liberalization fosters growth by reducing structural ridigities that interrupt the efficient allocation of resources as well as increasing the flow of technology and direct investment into developing countries. In the Uruguay Round, we are exploring ways to encourage the maintenance of trade concessions, achieved through IMF-supported programs, after the period of the program is completed.

ENERGY SECTOR LENDING

SENATOR INOUYE: Part of the justification you give for supporting the World Bank General Capital Increase is that GCI lending is "necessary to assure that the Bank will continue to provide the necessary support for economic growth in the developing countries." You note that "at least 75 percent of World Bank lending is for projects to promote human and capital infrastructure in areas such as energy development...agriculture and rural development..." "Energy," you remark, "is clearly essential to development" and should be expanded. In fiscal year 1987 the Bank made commitments of $3.5 billion for energy development projects..."

Why should the United States support lending to the energy sector in developing countries at a time when there is a global oil glut?

SECRETARY BAKER: The vast majority of World Bank--and other Multilateral Development Bank--energy lending is for domestic electricity generation, transmission, and development, rather than for oil, gas, or coal projects. In WBFY 1987 IBRD/IDA lending for electric power was $3,016.9 million, or 17.1 percent of that year's total lending of $17,674.0 million. However, the Bank's lending for oil, gas, and coal projects during that year was only $687.4 million, or 3.9 percent of total lending.

This Administration was in conflict with the World Bank in the early 1980s regarding oil and gas lending which we feared could displace alternative public and private sources of finance. This situation was especially acute for oilfield development projects in India and China. However, several years ago--largely as a consequence of our concerns--the Bank adopted more restricted guidelines regarding oil and gas projects. This new policy has satisfactorily resolved the problem.

Most of the World Bank's current oil and gas lending is for projects aimed at meeting domestic consumption, rather than for export. These projects are frequently rather small, and are often located in oil importing Sub-Saharan African countries. The primary goal of such projects is to help governments attract international oil company exploration activity.

Treasury will continue to examine all proposed World Bank and other MDB loans for oil, gas, and coal carefully. We will support only those loans which are clearly economically, financially, and environmentally sound, compatible with American economic interests, and where the Bank's funds are clearly paying a catalytic role. Naturally borrowing country macro-economic and energy sector policies will also be reviewed closely.

WORLD BANK CONTRACTS

SENATOR INOUYE: You state that "personnel from the Commerce Department, in conjunction with the U.S. Executive Director's office at the World Bank and Treasury staff, are working strenuously to increase the number of contracts on which U.S. firms bid." What mechanisms are being considered for increasing the number of contracts open to U.S. bids?

SECRETARY BAKER: The World Bank seeks to ensure that proceeds of World Bank loans are used economically and efficiently. To achieve this objective the World Bank has required that borrowers use the international competitive bidding process. U.S. firms are eligible to compete in all international competitive bidding for World Bank financed projects.

U.S. firms have been competitive and have won significant numbers of World Bank contracts through international competitive bidding. For example, U.S. firms received in World Bank fiscal years 1981-1985 an average of $763 million or 19.5% of World Bank disbursements for foreign procurement. In WBFY 1986 and 1987, U.S. firms received respectively $852 million or 18.8% and $1,624 million or 22.8% of World Bank disbursements for foreign procurement. The total value of World Bank related business is higher than these figures, since these statistics relate only to the World Bank financed portions of the total contracts. Treasury staff are currently working with Bank staff to improve the comprehensiveness of World Bank contract data.

The International Trade Administration's Office of Major International Projects has actively cooperated with the U.S. Executive Director's office at the World Bank in giving support to U.S. firms bidding on World Bank projects. Guidance is provided to U.S. firms wishing to learn of export opportunities and assistance is given to firms experiencing difficulties at any stage of the procurement process.

The recent dollar exchange rates have increased the price competitiveness of U.S. goods and services. The Administration encourages the U.S. private sector to pursue aggressively this advantage, to use the assistance facilities already in place, and to increase its bidding for World Bank contracts.

WORLD BANK PRIVATE SECTOR DEVELOPMENT TASK FORCE

SENATOR INOUYE: You refer in your statement to the fact that World Bank management "has established a high-level task force including representatives of the private sector to propose policies, procedures, and initiatives" in support of private sector development. It is my understanding that the task force will begin its review in due course and will complete its report before the summer. What kind of initiative would you recommend to this body?

SECRETARY BAKER: Generally, we would stress our belief that the World Bank can best encourage private sector development through its policy-based lending. It must encourage developing countries to facilitate the free flow of trade and capital through appropriate tax, trade and investment policies. While the Bank is already active in this area, we believe more could be done.

In particular, we would propose that the Bank place more emphasis on financial sector policies. Especially in middle income countries, the mobilization of capital through free markets is key to private sector growth. As the Bank expands in this area, we would like to see regular and effective coordination with the IMF.

We would also recommend that the Review Group propose measures to assure that the Bank's financial resources are increasingly available for direct lending at market rates to private-sector entrepreneurs in its member countries.

Finally, we would encourage the Review Group to propose initiatives that would give the Bank a more active lead in encouraging efficient operations through the privatization of parastatals.

SENATOR INOUYE: Has the task force been asked to consider initiatives consistent with particular lending levels?
SECRETARY BAKER: Since the Review Group's work is still at an early stage, we have focused on the importance of certain policies, as I just mentioned. We have not tied any proposals to lending levels and I am not aware that any other countries have done so either.

SENATOR INOUYE: What, if any, obstacles have been encountered from other Bank member countries to this effort?
SECRETARY BAKER: I am not aware of any obstacles that other countries may have posed to this effort.

Questions Submitted by Senator DeConcini

ANGOLA

SENATOR DECONCINI: Mr. Secretary, you and I have discussed the general subject of Angola and exchanged letters recently on the possibility of IMF membership. You have agreed in this correspondence that it is not time to extend these benefits and privileges to the Angolan government. As you are probably aware, the U.S. 1987 trade deficit with Angola was $1.2 billion yet we still give them MFN and GSP. On the battlefront, Cuban troops guard American oil companies from U.S. backed democractic resistence fighters. The Soviets have exported over $12 billion in arms to the Marxist government to supply 40,000 Cuban troops, yet the U.S. trade with Angola flourished. Mr. Secretary, this Administration has decided to withdraw GSP from Asian countries with trade surpluses with the US.

Could you please comment for the record on your position on IMF membership for Angola, their status on economic reforms, and future trade relations with this country?

SECRETARY BAKER: The Angolan economy is beset by severe difficulties which are exacerbated by the government's limited institutional abilities, making any successful economic reforms doubtful. Moreover, the ongoing civil war, which consumes the bulk of the government's revenues, will continue to hinder its ability to implement crucial economic reforms. In light of the continuing foreign exchange shortages and security problems, the economic outlook for Angola is difficult.

This situation raises serious questions about Angola's willingness and ability to fulfill the terms and obligations of IMF membership which involve a range of requirements, including the provision of extensive economic data. Further, it is not clear that they could implement the kind of market-oriented policy reforms advocated by the IMF or repay any obligations to the Fund which might arise. Accordingly, we do not consider Angola's membership in the Fund appropriate at this time.

The Government of Angola's commitment to economic reforms is unclear. While the Government has indicated its intention to devalue the official exchange rate, control spending, and improve the financial and operating performance of public enterprises, there is no evidence that they have followed through with any significant actions toward this goal. As a result, its economy remains largely directed by non-market policies.

Projecting future U.S. trade with Angola is problematic, as it will depend on a number of factors difficult to forecast. In any case, U.S. exports to and imports from Angola, while volatile, have been small relative to U.S. overall trade. Since 1985, U.S. trade restrictions together with Angola's financial problems have limited our exports to Angola. From 1985 through 1987, U.S. exports to Angola were $137 million, $86 million, and $95 million, respectively. During the same period, imports from Angola were $1.0 billion, $0.7 billion and $1.2 billion, respectively.

MICRO-ENTERPRISE DEVELOPMENT PROGRAMS

SENATOR DECONCINI: Mr. Secretary, I believe supporting micro-enterprise programs--providing very small loans of $50 to the truly poor of the world--is one of the most cost-effective and prudent forms of development assistance by our country. Last year, Congress passed the Micro-Enterprise Loans for the Poor Act, directing $50 million to this effort.

What are the World Bank and multilateral development banks doing in this area?

Do you see a focus on these types of loans in the future?

SECRETARY BAKER: As you know, the act to which you refer does not pertain to the MDBs. The 1988 MDB authorizing legislation, H.R. 3750, however, required that the U.S. Executive Directors be instructed to initiate discussions with other directors about micro-enterprises.

The World Bank and the other MDBs appreciate the strong potential of micro-enterprises in the developing world. Indeed, there will be an MDB conference on this matter in early June in Washington.

Experience to date with micro-enterprise programs indicates the MDBs can best assist in the development of such enterprises by encouraging borrowing countries to adopt sound policies. In particular, the probability of success for micro-enterprise development is enhanced by the maintenance of positive real interest rates (to encourage the mobilization of small savings), the involvement of non-governmental organizations (NGOs), and a significant role for private sector commercial banks. Once this correct policy framework is in place, the actual provision of funds for micro-enterprises can come primarily from credit unions, etc., rather than from hard currency loans from the MDBs.

Finally, I would like to caution against putting too low a ceiling on the level of assistance for micro-enterprises. An excessively low ceiling essentially limits such enterprises to street peddling, and the productivity of such activity in most developing nations is very low. Accordingly, family owned small businesses--including artisan workshops--should also be eligible for micro-enterprise assistance funding.

TRADE NEGOTIATIONS WITH MEXICO

SENATOR DECONCINI: Mr. Secretary, during the past few years the U.S. has worked to eliminate trade barriers established by Mexico. The initial impact of trade liberalization and reform has increased unemployment in Mexico by eliminating some inefficient industries. Given the serious economic and political conditions that exist in Mexico today, how would you suggest that we negotiate with Mexico in the future? Would a Free Trade Agreement, similar to the one with Canada, be in our interests? Also, the maguiladora industry has benefitted both countries. Are the Japanese or Koreans beginning to exploit this relationship?

SECRETARY BAKER: We are seeing the beginnings of an historic restructuring of the Mexican economy and of Mexico's trade relationships with the United States specifically and the world in general. In recent years, Mexico has undertaken a number of important steps: Mexico acceded to the GATT in 1986 and signed with the United States last November a bilateral Framework Understanding on Trade and Investment. The Framework Understanding is a recognition that both countries will gain from continued liberalization of bilateral trade and investment flows. The President's February 13 meeting with President de la Madrid built on this progress. Initial framework consultations at the end of February were useful in reviewing and clarifying the broad range of trade and investment issues on the agenda. We see these measures as providing a solid foundation on which to build freer flows of trade and investment between our countries, which may eventually lead to a more formal agreement.

Although Japanese participation in the maquiladora program is increasing, the level of participation in absolute terms remains small. In 1986, for example, there were only 15 Japanese (and substantially fewer Korean) maquiladoras out of more than 1,000 plants. As of January 1988, 65 more Japanese plants were either established, under construction, or in the later stages of consideration. Most Japanese maquiladoras are established by U.S. subsidiaries of Japanese firms seeking to take advantage of favorable Mexican labor costs and gain access to the U.S. market. Japanese maquiladoras import 80 percent of their in-bond components from Japan through U.S. subsidiaries; the other 20 percent come from U.S. suppliers.

U.S. TRADE DEFICIT WITH KOREA

SENATOR DECONCINI: Mr. Secretary, you were recently quoted in a Washington Post article as being optimistic about reducing the U.S. trade deficit with Korea that has grown by $10 billion over the last three years. You stated that progress was near on such issues as greater protection for U.S. intellectual property rights and access for American insurance companies. What leads you to believe that there is any promise for this cooperation? Additionally, in regard to Japan, what progress has there been on gaining access for U.S. construction firms? Is it true we had trouble getting a high level U.S. representatives to finish these negotiations?

SECRETARY BAKER: We have, in fact, succeeded in gaining market access for U.S. insurance companies into Korea and we are pleased to put this issue behind us. We continue to consult on intellectual property. The Koreans implemented new procedures for dealing with book piracy which have proven effective. We will continue to consult with the Korean government during the May Trade Sub-group talks in Seoul to negotiate effective intellectual property protection.

With regard to access to the Japanese market for U.S. construction firms, negotiations ended in an agreement on March 26. The Japanese agreed that 14 of their major public works projects (including construction of airports and port facilities, a new headquarters for Nippon Telegraph and Telephone, and the Trans Tokyo Bay Bridge) will be open to bidding by U.S. companies. These 14 projects include about $7 billion in construction and engineering spending. Ambassador Michael Smith, Deputy U.S. Trade Representative, led the U.S. delegation in the final negotiations.

WORLD BANK LOANS TO COMMUNIST COUNTRIES

SENATOR DECONCINI: Mr. Secretary, I have seen statistics that indicate the World Bank gave roughly $10 billion in loans to Communist countries, such as Nicaragua, Ethiopia, and South Yemen, from 1981 through 1986. What is the U.S. doing to influence the big five to discourage this practice or to change the voting weights (as we did in the United Nations)? These types of loans diminish U.S. support for the World Bank and foreign assistance in general.

SECRETARY BAKER: Of total World Bank assistance from FY 1981 through 1987 to countries which could be considered communist, 69 percent went to just two countries, China and Yugoslavia. We consider it very important that these two nations be assisted.

Other countries that you cite--Nicaragua, Ethiopia, and South Yemen (PDRY)--received only 5.8 percent of this total, most of which (5 percent) went to Ethiopia. Nicaragua received only $16 million in January 1987, very early in the present regime, for municipal development.

The United States has discussed with the other donors the amounts going to "communist countries", and the United States has opposed many of the loans to these countries for the lack of economic policy reforms, expropriation, or human rights violations. Finally, I might add that the voting in the World Bank (IBRD/IDA) is already weighted relative to the number of shares subscribed. In the IBRD, the United States currently holds 19 percent of the vote and in IDA we have 18 percent.

MDB FY 1989 APPROPRIATIONS

SENATOR DECONCINI: The Federal government spent $23 billion more than it received in revenue during February, as announced by the Department of Treasury. The government predicts a budget deficit of $123.27 billion in fiscal 1988, but many sources expect it to exceed last year's $148.0 billion deficit. How can you justify, Mr. Secretary, an increase of 9.8 percent over FY88 appropriations for MDB funding? We have students, farmers, and bankers in our country desperately in need of prudent U.S. fiscal policies.

SECRETARY BAKER: We believe that it is fiscally prudent to participate in the multilateral development banks. We could not possibly provide the amount of resources bilaterally that we can through the MDBs in support of countries of importance to us.

The MDBs are cost effective. They are able to lend about $22 billion per year with an average cost to the United States in budget authority terms of about $1.4 billion. The actual budgetary outlay effect is much less. For example, the entire FY 1989 MDB request of $1.3 billion will result in only $51 million of outlays in FY 1989 and $32 million in FY 1990.

QUESTIONS SUBMITTED BY SENATOR HARKIN

NICARAGUA

SENATOR HARKIN: The Inter-American Development Bank, which is part of Treasury's request, has not approved a loan to Nicaragua since 1983, due to U.S. political pressure. When the U.S. vetoed a proposal before the IDB to grant Nicaragua $2.2 million to complete a road-building project, James Conrow, then director of Treasury's Office of Multilateral Banks, said the U.S. would continue to vote against such loans until Nicaragua takes steps to "revitalize the private sector" and "improve the efficiency of the public sector."

U.S. objections came to a head in 1985, over a $60 million loan for an agricultural credit program to help small and medium private farmers.

That loan would be directed toward Nicaragua's 50,000 private farmers, enabling them to purchase such things as fertilizer and tractors.

Nicaragua had first applied for the loan in 1982, but due to U.S. pressure to delay its processing, it wasn't until November 1984, before the Bank's technical staff recommended it for approval by the IDB Executive Board.

To forestall that approval, Secretary Shultz in a January 1985 letter to the Bank strongly objected and warned that Congress would cut off the U.S. contribution to the Bank if the loan went forward.

The Board caved in, withdrew the loan from Board consideration, and in December reported it lacked the necessary data to establish the loan's feasibility.

At a March 24-26 annual convention of the bank, representatives of Canada, Scandanavia, Holland, Switzerland, Spain and 5 Latin American countries criticized the politicalization of the bank.

Yet U.S. pressure has continued to keep the $59 million ag loan on hold. As part of the overall U.S. embargo, Nicaragua still does not receive assistance from the IDB.

Mr. Secretary, in light of dramatic changes in Sapoa last week, progress in ceasefire talks in Managua, and the prospect of a ceasefire and political integration in Nicaragua, Mr. Secretary, do you envision a change in U.S. policy toward Nicaragua in the MDBs?

Will the U.S. continue to exert political pressure to halt MDB loans to Nicaragua, including not just a veto of Nicaraguan loans but a cutoff of all assistance to the bank?

Have political or economic considerations motivated U.S. policy toward Nicaragua in the banks?

Would you consider Secretary Shultz's letter to President Ortiz Mena of the IDB a usual practice on these matters?

SECRETARY BAKER: The U.S. policy on MDB loans to Nicaragua would continue to require a careful examination of the economic, financial and environmental merits of each loan. This approach is the same for any MDB loan. Nevertheless, at this time, Nicaragua is not creditworthy, and its current economic policies would make it difficult to implement effectively a development project there. Our objections to MDB loans for Nicaragua have been made solely on an economic/financial basis. For example, compared with the other borrowers in the Inter-American Development Bank (IDB), the economic policy mix is the worst in Nicaragua.

Nicaragua's macro-economic and sector policies are unsound. The recent currency reform is not expected to solve Nicaragua's severe economic problems. In particular, the exchange rate is overvalued, which worsens their already weak balance of payments position; interest rates are set artifically low, while inflation soars; the fiscal deficit is unsustainable; and price controls further distort the economy. Inflation was about 1,500 percent in 1987, and is expected to worsen this year. The Nicaraguan government's deficit is about 17 percent of GDP. Moreover, there does not now exist any set of reforms that would substantially reverse the situation.

In recent years, we have seen the Nicaraguan economy deteriorate due to inappropriate economic policies and we see no sign of effort to modify policies to encourage stable growth. In contrast to the Nicaraguan situation, we see an acknowledgement of the problems and efforts to grapple with fundamental economic issues in the rest of Latin America, for example, the policy reforms in Bolivia and Colombia.

Secretary Shultz's letter to the president of the IDB was an exception to normal practice. Even so, it should be made clear that the $58.4 million IDB loan for agricultural credit in Nicaragua itself created an exceptional situation. Unlike normal procedure, the Nicaraguan government submitted a request that the Board of Executive Directors consider the loan, but without a recommendation by IDB Management. Normally, a proposal submitted to the Board by Management carries its recommendation, following a determination by staff that the proposal is sound in every aspect -- technically, financially, economically, including the relevant economic/financial policies of the prospective borrower. IDB Management determined that distortions in the economy would not permit the efficient implementation of the project.

QUESTIONS SUBMITTED BY SENATOR KASTEN

IDB BA REQUEST

SENATOR KASTEN: In your request for FY 1989 Appropriations, you request $0 for the Inter-American Development Bank. The briefing documents the Department provided this Subcommittee indicate there is an impasse in negotiating the Seventh IDB Replenishment. I understand the fundamental issue is over the weighting of donor country voting. To what extent do questions on environmental performance enter into these negotiations for a capital increase?

SECRETARY BAKER: Environmental performance is certainly one area in which we would hope to exercise our influence more effectively. Issues in this area could quite clearly benefit from the proposals that we have made as part of the negotiating process.

WORLD BANK ENVIRONMENTAL UNITS

SENATOR KASTEN: As part of its environmental reforms, the World Bank has created environmental units in its regional offices. Are there regular budgetary resources allocated to these units? Are those resources sufficient? Do these units have the authority to intervene on their own initiative in projects with adverse environmental impacts, or must they await the request of project and loan officers? If regional units do not have necessary authority or resources to systematically review the environmental impact of projects, what measures will the U.S. Executive Directors undertake to remedy this shortfall?

SECRETARY BAKER: Regular budgetary resources have been allocated to the four regional environmental units for the current year. We are monitoring the Bank's budgetary process in an effort to assure adequate funding for the units in the future. In an ideal situation most of the Bank's environmental work would be done by the loan officers early in the project appraisal stage with assistance from the environmental experts as needed. That is what we are working toward. In the meantime, we have to act to assure that funds are adequate for environmental experts to intervene effectively in the appraisal process and that they have all the authority they need for environmental review.

IDB ENVIRONMENTAL WORK PROGRAM

SENATOR KASTEN: The Inter-American Development Bank has undertaken an environmental work program. Is this plan adequate to address the serious deficiency in the Bank's environmental record? In particular, is the Environmental Management Committee an adequate mechanism to insure that environmental concerns are addressed in Bank operations? Would it be important for the Project Analysis Department of the Bank, which furnishes technical information on projects to the operations staff, to have trained environmental staff and environmental decision making criteria included in standard operating procedures?

SECRETARY BAKER: The Bank's environmental work plan has been a very useful step in addressing the environmental issues that confront the Bank. We look forward to a number of initiatives that will come from it. The Environmental Management Committee has also done important work in focusing attention on the issues and in involving different elements of management and staff in this process. However, we believe that the Project Analysis Department's environmental staff should be increased and focused more effectively on project appraisal and implementation issues. New additions to the environmental staff should have the training and background to function effectively in both appraisal and implementation and to transfer knowledge and information about specific environmental issues to other members of the staff. Environmental criteria certainly need to be included in the Bank's procedures and to govern aspects of the Bank's activities.

IDB IN HOUSE ENVIRONMENTAL EXPERTISE

SENATOR KASTEN: Currently the Environmental Management Committee has two trained ecologists and no anthropologists to advise it. Is the Treasury Department satisfied that this is sufficient expertise for the IDB to deal with environmental and indigenous peoples issues?

SECRETARY BAKER: We do not believe there is sufficient expertise on the staff to deal effectively with environmental and social cultural issues. We think that additional expertise is particularly important in project analysis, plans and programming, post/evaluation and review, small projects and technical assistance and in the Bank's legal work. We also think that the environmental function itself should have a more clearly defined place in the Bank's organizational structure in the project analysis area. We have encouraged the Bank's management to take action along these lines at the annual meeting in Caracas in March and we will continue to do so. We have also asked Bank management and other executive directors on the board for their views on secondment of environmental experts to the Bank.

BRAZIL POWER SECTOR LOAN

SENATOR KASTEN: The World Bank is negotiating with the Government of Brazil a second power sector loan for $250 million. Previous power sector projects have caused immense adverse environmental impacts. That sector also has ambitious plans to construct tremendous new generating capacity. Are you convinced that the concerns the U.S. Executive Director raised in June of 1986 in voting no on the first sector loan have been met? Has the World Bank insured that all economic energy conservation projects are being undertaken in these power sector loans? Is Treasury convinced that the Bank has demonstrated that the Brazilian National Indian Foundation, responsible for protecting indigenous people's lands and rights, is able to carry out its responsibilities?

SECRETARY BAKER: The U.S. is cooperating with other Executive Directors, primarily those from Britain and Germany, to express our concern that environmental issues be addressed in the Bank's negotiations with Brazilian authorities. Until these negotiations are completed, we cannot say with certainty what environmental measures the Brazilians have agreed to. However, strong donor cooperation on this effort will increase the likelihood that this loan will not be approved unless all environmental concerns, especially resettlement issues, are appropriately addressed in the loan appraisal document.

There have been reports of problems in the National Indian Foundation. However, no existing alternative government institution is set up to deal with these types of issues. For this reason, the U.S. government will seek appropriate institutional strengthening in the area of social cultural analysis, consultation with local groups, and a strong monitoring and evaluation of these important issues.

The Brazilian Power Sector loan will also have an energy conservation component. Compliance with this particular provision is also very important.

DEBT FOR NATURE - CLARIFICATION OF IRS RULE

SENATOR KASTEN: Mr. Secretary, the Department has initiated a program to promote "Debt for Nature Swaps" in IRS ruling 87-124 (Nov. 1987). The private sector (NGO's & private banks) is having some difficulty interpreting this rule. Attached is a letter I sent Peter McPherson asking for clarification. I realize Mr. McPherson has been ill, but would appreciate assistance in answering these questions.

SECRETARY BAKER: We apologize for not responding sooner. The basic rule works to simplify a complicated financial transaction. If a bank has a loan with a market value less than its book value, it could sell the loan and take a business loss on the difference. Then it could take the proceeds (the market value) and donate them to charity, getting a second deduction for the market value. To simplify this complicated topic, the ruling permits the bank to compress these two steps into one. If the bank donates the loan to charity through the central bank of the LDC, it gets a deduction for the full book value without having to sell the loan first. To further clarify the many questions which arise around this matter, Treasury and AID will sponsor a seminar on "debt-for-charity" on May 23 at the State Department. Participants from the NGO community, government, and banking will be on hand to discuss and clarify questions concerning this issue.

BOTSWANA & DISLOCATION OF BUSHMEN

SENATOR KASTEN: Mr. Secretary, this Sunday's Washington Post carried an in-depth story on the dislocation of Bushmen in the Central Kalahari Reserve. This Subcommittee has closely followed this issue because of our concerns about the World Bank's Livestock III loan. The Subcommittee has always been careful to include indigenous peoples as a significant component of the environment. I am distressed by the reference in the article that "American Environmentalists" are pressing for the removal of these peoples. On the contrary, we believe indigenous peoples have a key role in "natural reserves". Is this consistent with Treasury's position?

SECRETARY BAKER: Treasury has never sought to have the Bank fund projects to remove the Bushmen from their traditional grazing area. Rather, the U.S. Government supports projects which provide assistance to improve and build upon the grazing practices of communal groups involved in the traditional livestock sector.

MDB DECISION PROCESSES

SENATOR KASTEN: Mr. Secretary, your annual report to the Appropriations Committee points out some very positive changes at each MDB in promoting environmental protection. You also cite several shortfalls at each institution. I remain concerned, however, that what we are seeking is largely "window dressing," changes around the fringes, at these institutions. Do you believe that environmental criteria have really been put on equal footing with economic criteria in decision making at the MDBs?

SECRETARY BAKER: Great progress has been made in each of the MDBs on environmental issues. Each of the Banks has increased the number of staff qualified in environmental issues. New policies have been established, such as the Wildlands Policy of the World Bank, which make clear the commitment each of these institutions have made to sustainable development. Under the leadership of the United States, we are now seeing the Banks move from commitment to performance in the increasing number of not only environmental protection measures, but also environmentally beneficial projects. Sure, progress could be faster in implementing the U.S. legislation. However, the faster progress we would all like to see can most likely occur with a strong U.S. role in the MDBs.

ECONOMIC MODELING AT MDBs

SENATOR KASTEN: Each of the MDBs uses economic models in protecting the return on investment of potential loans. For hard loans, they require a positive rate of return. I am concerned that environmental criteria have not been adequately factored into these models. Has the Treasury Department been presented with any evidence to indicate that long term environmental costs and benefits have been factored (as a standard course of business) into economic models used by the MDBs?

SECRETARY BAKER: Our review of projects indicate that the Banks have now begun to regularly employ economic modeling which reflect long-term environmental concerns. For example, a recent African Development Bank project in Guinea-Bissau contained a hydrological model to ensure sustainable water use. A World Bank Forestry and Conservation project in Indonesia contained an economic rate of return forecast for a watershed management component. An Inter-American Development Bank proposal for Ecuador, currently in the preparation stage, addresses the problem of the lack of environmental data in developing countries. This project includes a provision for the analysis and monitoring of a land management component in order to generate data on economic costs and benefits.

One of the problems in applying economic methodology to the environment is that traditional discounting methods do not adequately incorporate environmental impact in the long-term future. The problem is beginning to be addressed in the MDBs. The Inter-American Development Bank is doing research to look at alternative valuation methods to measure environmental costs and benefits. One of the functions of the new Environmental Department at the World Bank will be to do state-of-the-art research on measuring environmental costs and benefits.

For former Secretary Baker, Deputy Secretary McPherson will respond: To the extent possible, former Secretary Baker attempted in his letter of April 28 to respond to the concerns you expressed on the interim regulation issued by the Treasury related to the refinancing of Foreign Military Sales loans. As he stated in his letter, we gave the Treasury's full attention to the concerns you expressed during the

March 30 hearing, and in your letters of April 4 and 25 (the latter co-signed by Senator Inouye). Following are the more detailed answers that reflect the publication of a final regulation by the Department on July 6 and the subsequent refinancings of approximately $2.7 billion of FMS loans.

SENATOR KASTEN: Is it not true that the basic public policy rationale behind this entire initiative was to allow nations who find themselves in financial straits a chance to save money by refinancing their debt at the lowest costs and with the fewest market place barriers?

DEPUTY SECRETARY McPHERSON: The authorizing legislation and the Treasury Department's final regulations allow countries to refinance high rate FMS debt and reduce their debt service.

SENATOR KASTEN: Isn't it also true that this prepayment initiative was an important way of helping nations indirectly (by allowing them to reduce burdens on their present internal budgets) because the United States has found itself unable to increase direct aid (through foreign aid appropriations) to those nations, all of whom are important to our national interests?

Following up, is it not true that the interim regulations contradict both the letter of the law that Congress and the Administration agreed upon last December, and make it impossible for most nations that we are trying to help to take advantage of the prepayment initiative?

DEPUTY SECRETARY McPHERSON: The authorizing legislation enables qualifying foreign governments to receive financial benefits outside of the normal foreign aid appropriations process.

To date, two countries have refinanced approximately $2.7 billion of FMS debt under the final regulations.

SENATOR KASTEN: Why do the regulations, which prohibit certain structures, ignore the explicit language of the statute that says Treasury shall "impose no restriction that increases the costs to the borrowers of obtaining private financing ... or that inhibits the ability of the borrower to enter into prepayment arrangements hereunder."?

DEPUTY SECRETARY McPHERSON: The final regulations provide a great degree of flexibility for the borrowers. As stated above, $2.7 billion in FMS debt has already been refinanced.

SENATOR KASTEN: Is your intention with these resolutions to trigger the kind of crisis we had in the

REA refinancing? If not, do we have your assurances that we can expect these regulations to be honestly corrected during the comment period?

DEPUTY SECRETARY McPHERSON: Again, the final regulations provide a great degree of flexibility for the borrowers and, as stated above, $2.7 billion in FMS debt has already been refinanced.

SENATOR KASTEN: Your regulations as they relate to collateralization seem to exclude Treasury bills from being used as collateral for the ten percent, although I am informed that different answers to this question have been given by different people in the Treasury Department. May Treasury bills be put up for collateral, and if not, why not?

DEPUTY SECRETARY McPHERSON: As stated above, the final regulations provide the borrower with enormous flexibility including the ability to use Treasury bills for collateral.

SENATOR KASTEN: Didn't you and your staff review and even actively comment on the statutory language during the legislative process? If so, why did the regulations prohibit certain kinds of market structures (like commonly used senior-junior bond structures and trust structures), even when those structures would save the user nations money and neither cost the Federal Government money nor impose a contingent liability to the United States?

DEPUTY SECRETARY McPHERSON: The flexibility of the refinancing regulations permits the use of a trust structure.

SENATOR KASTEN: Is it not true that only Israel and a handful of very credit-worthy nations could use the initiative under the regulations as issued on an Interim basis?

DEPUTY SECRETARY McPHERSON: Each country will make its own decisions regarding whether or not to utilize the refinancing authority.

To date, two have done so and we anticipate that the number will grow.

SUBCOMMITTEE RECESS

Senator INOUYE. I wish to thank you once again, Mr. Secretary. As always, you have been extremely helpful to us.

This subcommittee will now stand in recess until 10 a.m., on Tuesday, April 12. At that time we will receive testimony in support of the administration request for fiscal year 1989 contributions to the MDB's.

The forthcoming hearing will afford subcommittee members an opportunity to pose questions on specific lending practices of the World Bank and IDA as well as the regional multilateral banks. Because criticism of the multilateral development banks in general so often arises from criticism of specific loans, I think the hearing should be very interesting and informative.

So the subcommittee will stand in recess until April 12.

[Whereupon, at 11:35 a.m., Wednesday, March 30, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, April 12, 1988.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1989

TUESDAY, APRIL 12, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room S–126, the Capitol, Hon. Daniel K. Inouye (chairman) presiding.

Present: Senators Inouye, Lautenberg, and Kasten.

DEPARTMENT OF THE TREASURY

STATEMENT OF DAVID MALPASS, DEPUTY ASSISTANT SECRETARY FOR DEVELOPING NATIONS, DEPARTMENT OF THE TREASURY

OPENING REMARKS OF SENATOR INOUYE

Senator INOUYE. The subcommittee will please come to order.

This morning's meeting is the second of two hearings concerned with the role played by the multilateral development banks in the less developed countries of the world and the way in which these institutions impact the course of U.S. foreign policy.

It is the purpose of these hearings that Members have an opportunity to closely examine the lending practices of the MDB's and the policies they are intended to implement, and we are pleased to have with us today the Honorable David Malpass, Deputy Assistant Secretary for Developing Nations.

As the committee of Congress concerned with the overseeing of the funding of the MDB's, it is our obligation to see that U.S. tax dollars are being spent in accordance with the broad objectives of U.S. foreign policy. In our report accompanying S. 1924 last year, we indicated that these objectives include respect for the environment, a widening of private sector involvement in the economy, the transfer of appropriate technology, and the enhancement of exports.

All of these activities should take place in an atmosphere of sustainable growth and expanding economic opportunity for the poorest elements in society.

In performing our oversight function, it is our intention not only to critique existing policies of the MDB's, but in the true spirit of cooperative government, to offer substantive suggestions on the way these institutions might be strengthened.

This morning, as I have indicated, we are very happy to have you with us, Mr. Malpass.

We have received your prepared text, and you may proceed as you wish, sir.

Mr. MALPASS. Thank you, Mr. Chairman.

I welcome the opportunity to appear before you today to discuss our MDB appropriations request, and in particular, the regional multilateral development banks. I would ask that my entire statement be placed in the record.

Senator INOUYE. Without objection, so ordered.

Mr. MALPASS. I will endeavor to be brief in my summary of it.

To provide some perspective for the discussion, it would be useful to review briefly U.S. participation in and policy toward the MDB's.

U.S. PARTICIPATION IN AND POLICY TOWARD THE MDB'S

The United States played an important role in establishing each of the MDB's, with the exception of the African Development Bank which was entirely regional in its origin. The United States proposed at Bretton Woods the creation of the IBRD to facilitate the provision of private capital for the immediate postwar reconstruction of Europe and to encourage rational economic development in the rest of the world.

The creation of the IDB and the Asian Development Bank similarly depended in each case on a U.S. decision to participate in these institutions. Other countries were unwilling to act alone, significant U.S. participation was viewed as essential. Even in the case of the African Development Bank, the subsequent expansion of its membership to include the United States and other non-regional countries was viewed as critical for its continued viability.

In 1982 this administration conducted an assessment of the U.S. participation in the MDB's. That assessment concluded that while continued U.S. participation was in our national interest, the operations needed to be more effective. Specifically, the MDB's, in our opinion, had to commit themselves to promoting policy reform and to substantially improving the quality of their lending in order to better foster sustainable economic growth. More hard-headed economic and financial scrutiny of MDB loans was required.

A key element of this framework is the generation of country strategies that lay out in detail what a country's development goals should be and how they can be achieved. These strategies are then to be used to guide the bank in selecting projects it will support. In this context, it is expected that greater efforts will be given to ensuring that projects are more market-oriented with greater attention to allowing the private sector to prosper and generate growth.

AFFECTING MDB OPERATIONS AND POLICIES

The United States and other members have a variety of opportunities to affect MDB operations and policies. The most visible vehicle, and certainly the one which provides the broadest scope, is the negotiation of MDB replenishment and capital increases. However, Board votes and comments on individual loans are equally important because they demonstrate the commitment of the United States to the policies we fight for in these negotiations.

My statement includes a description of the loan review process which is an important part of our work with the MDB's. In the interests of time, however, I am going to skip to the Asian Development Bank and the Asian Development Fund.

ASIAN DEVELOPMENT BANK AND FUND

In April 1986, as you know, we reported the agreement that we had reached of a $3.6 billion replenishment of ADF resources. The policy changes the administration achieved in the course of negotiating this replenishment are consistent with the basic negotiating framework which I described in the first section of my testimony. They include increased emphasis on the private sector, greater efforts to seek policy reform, development of country strategies, and hardening of lending terms for the concessional window.

It is important to understand, however, that while securing such reforms in the course of this or any replenishment agreement is a significant accomplishment, that is never the end of the story. In fact, securing agreement on such issues is really just the first step. There must be constant follow-through with other members and bank management to bring actual operations into line with agreed guidelines. It should be noted that the MDB's are not that different in this regard from other large bureaucracies.

Hence, it is not unexpected at this juncture to find that, in our view, the ADB still has a considerable distance to go in living up to agreed commitments. We are disappointed, for instance, that the bank has not moved more quickly to develop country strategies, particularly for major borrowers.

We, of course, will continue to press these issues with bank management and other members, both at ADB headquarters in Manila, and in other fora as opportunities present themselves. We hope that the reforms will ultimately be implemented more effectively, and we will keep the committee informed in this regard.

IDB REPLENISHMENT

Now turning to the Inter-American Development Bank, IDB, the dominant issue with the IDB is the seventh replenishment of bank resources. The U.S. position in the negotiations has been generally guided by recommendations of the 1982 MDB assessment but has also included the possibility for the IDB to play a supportive role in policy-based lending aimed at promoting economic reforms in the developing countries of Latin America and the Caribbean.

As you are all aware, despite almost 2 years of negotiations, agreement has not been reached on a replenishment of the IDB. With no progress in sight on the voting issue, negotiations were halted in October 1987.

Once the voting issue is resolved, we believe final agreement could be reached quickly on the formulation of country programming strategies, on procedures to guide sector lending, and on a reorganization of the bank's internal structure.

Understanding the voting issue, however, is critical to comprehending the future role of the IDB and U.S. policy towards it. As part of a reformed IDB, we are seeking a greater say for the non-borrowing member countries in the bank's decisionmaking process. We believe the non-regional donor countries, including the United States, which contribute the vast majority of resources to the IDB, should have more discretion and greater policy influence. This change is central to reforming the IDB.

The change we are seeking is not unreasonable. We want to be sure that the loans and policies produced under an expanded lending program contribute more effectively to creating the conditions necessary for economic growth. Past experience indicates that with the simple majority voting system now in operation, loan quality has been deficient in the IDB.

As of April 1, the IDB has a new president, Enrique Iglesias of Uruguay. His election presents the IDB with an important opportunity. Mr. Iglesias has expressed his intention to seek a redefinition of the role of the IDB which he hopes all shareholders can support. For our part, we remain committed to the IDB and are looking forward to working with the new president in this effort. However, we also believe that the fundamental changes which we were seeking in the seventh replenishment are still essential.

AFRICAN DEVELOPMENT BANK AND FUND

Turning now to the African Development Bank and Fund, in November 1987, negotiations for the fifth replenishment of the fund were concluded. Donor governments and fund management agreed on a 3-year replenishment of $2.7 billion. The United States agreed to seek a $315 million contribution over the 1988 to 1990 period, implying an annual budget authority request of $105 million, which is this year's budget request.

The administration succeeded in convincing fund management and other donors to adopt our positions on lending issues. These are listed on page 10 of my written statement and include promoting good economic policy, meeting the primary needs of the poorest sections of the population, improving linkages between the allocation of resources and the policy performance of individual countries; eliciting or promoting the direct involvement of the ultimate beneficiaries, including women, in the design and implementation of projects and programs, and contributing to the improvement of the environment.

In working toward these objectives, the fund will accord particular attention to the formulation of comprehensive country programs and will give highest priority to the agriculture sector.

While the bulk of the fund's lending will continue to be in project loans, the fund will begin to respond to the requirements of member countries for policy-based lending by expanding the use of sector adjustment and structural adjustment loans. Up to 20 percent of available resources under the fifth replenishment will be allocated for such lending which will be done in close collaboration with the World Bank and other multilateral development institutions. This change in the fund's lending program is consistent with a general tenet I mentioned at the beginning of my testimony, the need for the MDB's to commit themselves to promoting policy reform.

In these replenishment negotiations, we also stressed the need to continue to improve the quality of bank and fund lending. Management recognizes that loan quality must be improved, but we are concerned that in the first quarter of this year, too many loans of poor quality were brought forward for board consideration. We have raised our concern through our executive director and bilaterally, and will continue to press for an improvement in loan quality.

WORLD BANK GENERAL CAPITAL INCREASE

Before concluding, Mr. Chairman, I would note that one of this year's major MDB issues is the General Capital Increase for the World Bank. The administration's budget requests $70.1 million for fiscal year 1989, the first of six annual subscriptions. The authorization legislation was sent to Congress in March. Since Secretary Baker addressed the GCI in detail in his March 30 testimony before this committee, I have not included it in my statement. However, I would be happy to answer questions on it in a moment.

MIGA

One further note. We intend to deposit the MIGA ratification this afternoon. This will bring MIGA, the Multilateral Investment Guaranty Agency, on which we all worked last year, into accord, with the United Kingdom also ratifying today.

We look forward to MIGA taking a lead role in the World Bank Group. We are mindful of the admonition of Congress that MIGA be concerned about workers' rights and not support projects which unfairly compete with U.S. jobs and exports or commodities in excess supply.

CONCLUDING REMARKS

In conclusion, Mr. Chairman, in my testimony today I have covered three areas; first, the framework for negotiating MDB replenishments that has evolved since the 1982 assessment; second, in my written testimony, the process of reviewing MDB loans within the U.S. Government, and third, some of the main issues in the regional institutions. In discussing the latter, I have given you a frank appraisal of some of the problems we face, as well as some of our accomplishments.

It bears emphasizing that our conclusion is not that the United States should pare down its participation in some or all of these institutions. We would not have some of these problems if we had not succeeded in getting the institutions to accept in principle the policy changes we sought. Even in the case of the IDB, there is agreement that country strategies will benefit the bank, the donors, and most importantly, the borrowers.

What is needed now is followthrough on our part so that these policy changes become a natural, accepted part of MDB operations. But this requires a judicious use of our influence in these institutions, and that cannot be done by lowering our financial participation. As Secretary Baker indicated to you in his testimony, the United States cannot use its influence to bring about better MDB policies by backing away from these institutions.

I believe that we have a clear policy direction within the MDB's, one which Congress has had substantial influence on, and one which will be very effective for the United States and the developing countries.

We seek your continued support as we follow through on these policies.

Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT BY
DAVID MALPASS
DEPUTY ASSISTANT SECRETARY
FOR DEVELOPING NATIONS
DEPARTMENT OF THE TREASURY

Mr. Chairman and Members of the Committee, I welcome the opportunity to appear before you today to discuss our MDB appropriations request and, in particular, the regional multilateral development banks (MDBs). To provide some perspective for that discussion it would be useful to review briefly U.S. participation in and policy toward the MDBs generally.

U.S. Participation in the MDBs

The United States played an important role in establishing each of the MDBs, with the exception of the African Development Bank which was entirely regional in its origin. The United States proposed at Bretton Woods the creation of the International Bank for Reconstruction and Development (IBRD) to facilitate the provision of private capital for the immediate post war reconstruction of Europe and to encourage rational economic development in the rest of the world.

The creation of the Inter-American Development Bank (IDB) and the Asian Development Bank (ADB) similarly depended in each case on a U.S. decision to participate in these institutions. Other countries were unwilling to act alone; significant U.S. participation was viewed as essential. Even in the case of the African Development Bank (AFDB), the subsequent expansion of its membership to include the United States and other non-regional countries was viewed as critical for its continued viability.

In 1982 this Administration conducted an assessment of United States participation in the MDBs. That assessment concluded that while continued U.S. participation in the MDBs was in our national interest, the operations of the MDBs needed to be more effective and efficient. Specifically, the MDBs in our opinion had to commit themselves to promoting policy reform and to substantially improving the quality of their lending in order to better foster sustainable economic growth. More hard-headed economic and financial scrutiny of MDB loans was required.

A key element of this framework is the generation of country strategies that lay out in detail what a country's development goals should be and how they can be achieved. These strategies are then to be used to guide the Bank in selecting projects it will support. In this context, it is expected that greater effort will be given to ensuring that projects are more market-oriented, with greater attention to allowing the private sector to prosper and generate growth.

The United States and other members have a variety of opportunities to affect MDB operations and policies. The most visible vehicle and certainly the one which provides for the broadest scope is the negotiation of an MDB replenishment or capital increase. However, Board votes and comments on individual loans are equally important because they demonstrate the commitment of the United States to the policies we fight for in these negotiations.

Loan Review Process

The United States carefully reviews each MDB loan proposal, roughly 500 per year, for its economic, financial and environmental viability. The general purpose of our review is to develop a U.S. position on individual loans for use by the U.S. Executive Director which will encourage the MDBs to develop good, profitable, environmentally sound loans. The review is also used to meet certain legislative requirements and to create a feedback mechanism to our policy directions within each Bank.

U.S. votes and commentary on loans have been an effective vehicle for influencing the directions of MDB lending programs as well as their specific lending policies. In the early 1980's, we were successful in limiting the World Bank's efforts to fund oil and gas projects for which alternative sources of financing are often available. We also dissuaded the Bank from setting up a separate organizational unit devoted to such lending.

Another extremely important loan policy direction, developed in coordination with the Congress, has been the recognition that there is a strong connection between the environmental soundness of a project and its economic viability. I would note that, as in the energy sector example, this policy direction will take time and tenacity to implement. The result we are striving toward is multilateral institutions working as a positive force in the environment by focusing in-country political and economic leaders on the importance of environmental aspects of their projects.

The United States has been successful in strengthening some regional MDB policies. The IDB, for example, is moving to establish standards regarding tariff rates for electricity, water supply, and telecommunications. In the ADB, policies concerning domestic resource mobilization -- for example, cost recovery in irrigation projects -- have received much more attention. We have stressed to all of the MDBs the need to focus on these areas.

The United States has also been successful in altering individual projects. Currently, for example, the African Development Bank is redesigning a rural development project for Benin that we objected to last month because of local institutional constraints. We have also been able to alter projects in the Fund for Special Operations, the concessional fund of the IDB, where the United States as the Fund's major contributor has a veto. There the United States can require that loans be withdrawn and the project improved. This control has been exercised 19 times in the past three years as we have insisted that the terms of the loans adhere to the Bank's own lending policies on such things as cost recovery, the environment, and interest rates for on-lending.

We will continue through the loan review process and Board comments to promote improved loan quality in the MDBs. I would now like to briefly review some of the main issues in each of the regional MDBs, beginning with the Asian Development Bank and Fund.

The Asian Development Bank (ADB) and Fund (ADF)

In April 1986, as we have reported to you previously, agreement was reached on a $3.6 billion replenishment of ADF resources. The United States share of the replenishment is $584 million (16.2 percent), to be paid in four equal annual installments of $146 million each.

The policy changes the Administration achieved in the course of negotiating this replenishment are consistent with the basic negotiating framework described in the first section of my testimony. They include:

-- increased emphasis on the private sector in promoting long-term sustainable growth and development;

-- greater effort to seek policy reform by borrowers in the context of lending and technical assistance activities;

-- development of country strategies to guide the lending program for each country; and

-- hardening of terms for concessional lending.

The ADB has made progress in implementing these reforms, although the implementation has not gone as fast as we would have liked. ADF lending terms have been hardened for borrowers which rely on a mix of concessional and non-concessional funds. Country strategies have been and are being prepared. New programs for making funds available to the private sector have been developed.

It is important to understand, however, that while securing such reforms in the course of this or any replenishment agreement is a significant accomplishment, that is never the end of the story. In fact, securing agreement on such issues is really just the first step -- there must be constant follow through with other members and bank management to bring actual operations into line with agreed guidelines. It should be noted that the MDBs are not that different in this regard from other large bureaucracies.

Hence, it is not unexpected at this juncture to find that, in our view, the ADB still has a considerable distance to go in living up to agreed commitments on reform. We are disappointed, for instance, that the Bank has not moved more quickly to develop country strategies, particularly for major borrowers.

We, of course, will continue to press these issues with Bank management and other members -- both at ADB headquarters in Manila and in other fora as opportunities present themselves. We hope that the reforms will ultimately be implemented more effectively than heretofore, and will keep the Committee informed on this matter.

The Inter-American Development Bank (IDB)

The dominant issue with the Inter-American Development Bank is the seventh replenishment of Bank resources. The U.S. position in the negotiations has been generally guided by recommendations of the 1982 MDB Assessment but has also included the possibility for the IDB to play a supportive role in policy-based lending aimed at promoting economic reforms in the developing countries of Latin America and the Caribbean.

After preliminary discussions in 1985 and 1986 with IDB management and other major shareholders, we were encouraged to pursue our proposal for an IDB that would join the World Bank in improving the prospects for sustainable economic growth in in the region. Based on these discussions, we put forward a four point package of changes consistent with our general framework that we considered essential to any replenishment agreement. These included:

- -- the creation of individual country strategies/programs to guide IDB lending;
- -- the adoption of appropriate policy conditionality in Bank lending and development of a program of well-defined well-targeted fast disbursing loans (sector lending) not exceeding 25 percent of total lending;
- -- restructuring operating departments to do country programming and sector lending; and
- -- changing the majority needed for decisions to give greater weight to the views of countries which supply the usable resources.

We were and still are prepared, if agreement can be reached on this package of changes, to seek a significant incerease in Bank resources. At the time it was negotiated, the replenishment would have supported a lending program of from $20 - $25 billion during the period 1987-90. This would have represented a doubling of lending from the Bank's hard loan window and a tripling of lending from the soft loan window when compared to the sixth replenishment. While we envisioned a program of some policy-based sector lending, the majority (at least 75 percent) of Seventh Replenishment lending would still be for projects.

As you are all aware, despite almost 2 years of negotiations agreement has not been reached on a replenishment of the IDB. With no progress in sight on the voting issue, negotiations were halted in October of 1987.

Once the voting issue is resolved, we believe final agreement could be reached quickly on:

- -- the operational definitions and procedures to guide the formulation of country programming strategies;
- -- the operational definitions and procedures to guide sector lending; and
- -- a reorganization of the Bank's internal structure to facilitate preparation of country programs and sector lending activities.

Understanding the voting issue, however, is critical to comprehending the future role of the IDB and U.S. policy towards it. As part of a reformed IDB, we were seeking a greater say for the non-borrowing member countries in the Bank's decision-making process. We were not making the request purely to assert the interests of the United States. Rather, we believe the non-regional donor countries, including the United States, which contribute the vast majority of resources to the IDB should have more discretion and greater policy influence. We believe that this change is central to reforming the IDB.

Seventy-two percent of the usable resources of the proposed capital increase were to be provided by the United States. Yet, the U.S. share of IDB votes is less than half that percentage -- 34.5 percent. Overall, the countries that would provide 95 percent of the Bank's usable resources would have only 46 percent of the vote.

In view of this imbalance, the change we were seeking is not unreasonable. We want to be sure that the loans and policies produced under an expanded lending program contribute more effectively to creating the conditions necessary for economic growth. Past experience indicates that with the simply majority voting system now in operation loan quality has been deficient in the IDB.

As of April first the IDB has a new President, Enrique Iglesias of Uruguay. His election presents the IDB with an important opportunity. Mr. Iglesias has expressed his intention to seek a redefinition of the role of the IDB which he hopes all shareholders can support. For our part, we remain committed to the IDB and are looking forward to working with the new President in this effort. However, we also believe that the fundamental changes which we were seeking in the seventh replenishment are still essential.

The African Development Bank (AFDB) and Fund (AFDF)

In November, 1987 negotiations for the fifth replenishment of AFDF were concluded. Donor governments and Fund management agreed on a three-year replenishment of $2.7 billion. The United States agreed to seek a $315 million contribution over the FY 1988-90 period -- implying an annual budget authority request of $105 million.

The Administration succeeded in convincing Fund management and other donors to adopt our positions on lending policy issues. Under the replenishment, Fund operations will focus on:

-- promoting economic policies which assure the most efficient distribution of resources, including market-based incentive systems and appropriate pricing policies;

-- meeting the primary needs of the poorest sections of the population in low income countries, including employment creation and increased incomes;

-- improving linkages between the allocation of AFDF-V resources and the policy performance of individual countries;

-- eliciting or promoting the direct involvement of the ultimate beneficiaries, including women, in the design and implementation of projects and programs; and

-- contributing to the improvement of the environment.

In working toward these objectives, the Fund will accord particular attention to the formulation of comprehensive country programs. These programs would include an overall review of country constraints and possibilities, including the adequacy of country performance; formulation of project pipelines in light of the country needs and Fund capabilities; and coordination of Fund activities with major donors.

The agricultural sector will be given the highest priority. In addition, the Fund will continue to concentrate its lending on health, education, transport and telecommunications, public utilities and energy. Increased emphasis will be placed on incorporating environmental considerations in all of the Fund's projects and programs.

While the bulk of the Fund's lending will continue to be in project loans, the Fund will begin to respond to the requirements of member countries for policy-based lending by expanding the use of sector adjustment and structural adjustment loans. Up to 20 percent of available resources under AFDF-V will be allocated for such lending, which will be done in close collaboration with the World Bank and other multilateral development institutions. This change in the Fund's lending program is consistent with a general tenet I mentioned at the beginning of my testimony, the need for the MDBs to commit themselves to promoting policy reform.

In these replenishment negotiations we also stressed the need to continue to improve the quality of Bank and Fund lending. Management recognizes that loan quality must be improved; but we are concerned that in the first quarter of this year too many loans of poor quality were brought forward for Board consideration. The Benin rural development loan which I referred to earlier is an example. We have raised our concern through our Executive Director and bilaterally, and will continue to press for an improvement in loan quality.

Before concluding, I would note that one of this year's major MDB issues is the General Capital Increase for the World Bank. The Administration's budget requests $70.1 million for FY 1989, the first of six annual subscriptions. The authorization legislation was sent to Congress in March. Since Secretary Baker addressed the GCI in detail in his March 30 testimony before this Committee, I have not included it in my statement. However, I would be happy to answer questions on it in a moment.

Conclusion

Mr. Chairman, in my testimony today I have covered three areas: first, the framework for negotiating MDB replenishments that has evolved since the 1982 Assessment of U.S. participation in the MDBs; second, the process of reviewing MDB loans within the U.S. Government; and, third, some of the main issues in the regional institutions. In discussing the latter I have given you a frank appraisal of some of the problems we face, as well as some of our accomplishments.

It bears emphasizing that our conclusion is not that the United States should "pare down" its participation in some or all of these institutions. We would not have some of these problems if we had not succeeded in getting the institutions to accept, in principal, the policy changes we sought. Even in the case of the IDB, there is agreement that country strategies will benefit the Bank, the donors, and, most importantly, the borrowers.

What is needed now is follow-through on our part so that these policy changes become a natural, accepted part of MDB operations. But this requires a judicious use of our influence in these institutions, and that cannot be done by lowering our financial participation. As Secretary Baker indicated to you in his testimony on March 30, 1988, the United States cannot use its influence to bring about better MDB policies by backing away from the institutions.

I believe that we have a clear policy direction within the MDBs, one on which Congress has had substantial influence and one which will be very effective for the United States and the developing countries. We seek your continued support as we follow through on these policies.

ASIAN DEVELOPMENT BANK

Senator INOUYE. Thank you very much, Mr. Secretary.

If I may, I would like to proceed first with the Asian Development Bank.

As you are aware, in fiscal year 1988 we provided $15 million for the paid-in capital and $275 million or $276 million for the callable, and thereby we completed our contribution to the GCI.

What are we doing to encourage greater participation on the part of creditor and industrialized nations of that area to Asian development efforts, nations like Japan and Singapore and Taiwan, Korea?

Mr. MALPASS. Those countries aze all members and are actively providing funding, for example, to the Asian Development Fund, and so do you mean active participation——

Senator INOUYE. Are they all paid up?

Mr. MALPASS. I believe a number of countries have slowed their contributions to the Asian Development Fund in a way that corresponds roughly or is affected by U.S. contributions in that institution. The United States is $190 million in arrears to the Asian Development Fund, which we will be seeking in the fiscal year 1990 budget. However, the administration's request for this year, $146 million, will free up some of those funds that are being withheld.

Senator INOUYE. Why do they always have to wait for us? I thought they were in better shape. They are creditors now, and this is their area.

Mr. MALPASS. That is true.

Senator INOUYE. They are part of Asia, are they not?

Mr. MALPASS. They are part of Asia. I think burden sharing is an interesting, important concept and is one that we are working on with those countries, and that as their economies strengthen, they need to play a more active role in the world economy.

Senator INOUYE. Have we succeeded in convincing them?

Mr. MALPASS. Now, with respect to the Asian Development Fund, I believe that some of the countries have specific procedures that they follow as they make their contributions.

In the African Development Fund, we have had success in encouraging more burden sharing concepts. In the Asian Development Fund, there is a rather different situation than in some of the other MDB's in that it now has more funds than are needed for its current lending program. That has to do with the economic situation in many of its recipients. For example, Korea, which used to be a major borrower, is no longer receiving funds from the Asian Development Fund.

NECESSARY REQUIREMENT FOR ALL FUNDING

Senator INOUYE. That brings me to another question, sir. The economic conditions being such that there is larger than expected lending capacity, lower than expected lending levels, in view of our budget problems in the United States, do you think there is a requirement for the appropriation this year of the funds requested, $146 million for the Asian Development Fund? As you said, they are loaded with money.

Mr. MALPASS. I did not say they were loaded.

Senator INOUYE. And we have other requests, demands, for example, from IDA.

Mr. MALPASS. Certainly we have placed the focus in our appropriations request last year and this year on IDA, and we strongly support that organization.

The ADF is not exactly loaded with money. It has adequate funding for its current lending program. It is, I believe, important that the United States, because we do have substantial arrearages to that institution, and in fact, greater than at any other MDB institution, continue to make strong efforts to provide the agreed upon replenishment.

We are working actively in the institution for some of the reforms that we believe have been lagging, but I believe that we should continue to push for the $146 million annual appropriation.

ADB ASSISTANCE TO PHILIPPINES

Senator INOUYE. What is ADB doing to help the Philippines?

Mr. MALPASS. In the Philippines, the bank has continued its lending program.

The Philippines has had a difficult economic time over the last 3 years—maybe over the last 10 years. In recent years, the Asian Bank was participating with the World Bank in projects in the Philippines, and there were a number of projects. Presently, the lending activity from the Asian Development Bank to the Philippines is not large. I think that as the Philippine economy begins to return to a normal development basis that new projects would be considered and undertaken by the bank.

Did that answer your question, sir?

Senator INOUYE. Well, I was hoping that the Asian Development Bank would do much more to help the Philippines.

Mr. MALPASS. We hope that, as well. I think that there has been for the last year or more some difficulty in that country in putting together projects and then proceeding with the conditions on them.

Senator INOUYE. In fact, the Filipinos expect much more from their Asian neighbors.

One of the proposals made in the recent negotiations by the Philippinos called for Asian involvement and the payment for the use of our bases there.

Mr. MALPASS. Sir, I have been handed a note here that says there is $150 million from the IBRD, the World Bank, waiting for some action by the Philippine Government to become effective.

So I believe there is a degree of receptiveness on the part of the MDB's, and we will certainly be encouraging that effort.

ADB STAFFING AND PROCUREMENT POLICIES

Senator INOUYE. Over the years I have been concerned about ADB's staffing policies and procurement policies, and I think in the early years statistics clearly indicated that we were not getting our share.

Are we getting our share now?

Mr. MALPASS. No. Proportional to our ownership in the bank, we are not getting our share.

In the MDB's as a whole, the United States does very well on procurement issues. We are the biggest recipient of MDB contracts. Primarily our success has been in World Bank and IDB contracts.

There are some logical reasons for that. The Asian Bank and the African Bank are very far away from U.S. suppliers, so to an extent our costs would be higher in participating in some of these contracts.

In addition, the same problems that we are having with our exports in general apply to our procurement contracts with the Asian Bank. The U.S. firms are perhaps not as aggressive as they should be in going after those contracts.

Senator INOUYE. Are we advising American firms of the availability of these contracts?

Mr. MALPASS. Yes.

Senator INOUYE. In a timely fashion?

Mr. MALPASS. Well, there are certainly areas where we could do more. We have recently added staffing within Treasury with the specific effort to do a better job of timely reporting of procurement contracts.

Each of the MDB's, I should note, operates a rather effective system, an open bidding system or competitive bidding system.

I think that the Asian Bank could do a much better job in a number of management areas and perhaps specifically in procurement. That is one issue I will be looking at as we go forward this year.

STAFFING PARTICIPATION BY AMERICANS

Senator INOUYE. Are we pressing, then, for greater staffing participation by Americans?

Mr. MALPASS. Yes, we are. In general within the MDB's we try to seek the situation where highly qualified American candidates can play active roles in the institutions.

Specifically, within the Asian Development Bank we have sought some upgrading of the portfolio of one of the American Vice Presidents, and we have had active discussions with the bank management on that.

We have been in contact with committee staff here regarding these issues, and we would like to keep you informed as the year goes by.

JAPANESE ACTIVITY IN BANK

Senator INOUYE. Are the Japanese still running the bank?

Mr. MALPASS. The Japanese hold the presidency of the bank and many of the key positions.

Senator INOUYE. Including procurement?

Mr. MALPASS. I do not know specifically on procurement, but they are active in a number of key positions within the bank.

Senator INOUYE. Why are they not participating more with money?

Mr. MALPASS. The Japanese provide the same funding level as we do in the Asian Development Bank. It is approximately 16 percent, but in the Asian Development Fund they do provide more funding than the United States. I do not have the statistics here.

I think as we found in the IDA negotiations just completed, the Japanese have a willingness to supply more funds to the concession windows, and the United States has welcomed that effort.

In the Asian Bank, they could probably do more in that regard.

Senator INOUYE. Let me now turn to the Inter-American Development Bank.

Mr. MALPASS. I need to be clear. I am sorry. In the Asian Development Fund, they could do substantially more.

IDB REPLENISHMENT

Senator INOUYE. If I may now go to the Inter-American Development Bank, we are blocking a proposed capital increase for the IDB, and it is based on a charge that this bank needs to tighten its lending policies.

One of your colleagues, Mr. Mulford, recently was quoted in the Wall Street Journal. He said the issue of replenishment and reform will be easier to deal with once the bank has a clearer vision of its mission.

How does the U.S. vision of the bank's mission differ from that of the new president, President Iglesias?

Mr. MALPASS. I am not sure that at this point it does. Mr. Iglesias is coming into a new office and is using this initial period to examine the status of the bank, to discuss it with its major shareholders and with the major borrowers from the bank and to create his vision of where the bank will go.

The United States has wanted to allow that process to take its course.

DONOR VOTING RIGHTS IN IDB

Senator INOUYE. What policy on lending and administrative reform must the new president, President Iglesias, implement before the administration would consider any compromise on the question of donor voting rights in the IDB?

Mr. MALPASS. In our replenishment negotiations over the last 2 years, we have sought a number of changes within the bank. One is for country programming. That means looking at each individual country and seeing what its possible economic reforms could be and where the bank's lending could be most effective. That is one of the areas that we have pushed, and we would like to see the bank proceed more rapidly in that area.

There are administrative reforms and additional emphasis on the environment which we have been very concerned that they proceed within the bank.

Now, what do we have to do to come to a compromise on the voting issue? I do not think at this point we have sat down and tried to decide where we are going with the bank.

At this point, the president of the bank is new. He has some time to decide on a vision for the bank, and the United States will be watching and supporting that effort to the extent that we can.

I think at another point there will be discussion of the progress being made in the reforms in the bank.

I think we should be clear on why the United States pushed the voting issue within the bank. The United States provides some 75 percent of the usable resources of the bank, and yet only has slightly less than 35 percent of the voting share within the bank. So that creates a somewhat skewed relationship where the interest of the donors, the people putting the money into the bank, are different from the interests of the people who control the bank. In this case, the borrowers have effective control, more than 50 percent of the bank.

GROWTH SLOWDOWN IN LATIN AMERICA AND THE CARIBBEAN

Senator INOUYE. According the 1987 annual report of IDB, growth in Latin America and the Caribbean, and I quote, "slowed last year, posting an expansion in economic activity of slightly more than 2 percent." This compares with regional growth, averaging 3.8 percent annually between 1984 and 1986.

What are the factors which have contributed most to this decline?

Mr. MALPASS. We have been encouraged by some of the reforms in some of the countries in the region. However, in our view, inherent in the Program for Sustained Growth—the so-called Baker Plan—are the concepts that reforms lead to growth and that open market-oriented economic systems will provide the proper foundation for faster economic growth.

Now, in recent years, clearly, the world economy has operated on some rather complicated patterns. We went through inflation in the 1970's and a rapid deflationary period in the 1980's. So to an extent, the countries in Latin America are still suffering from coming off of this high inflationary environment of the late 1970's and early 1980's.

We hope that the growth rates will improve in the future, and that is a principal objective of the Baker Plan.

STRUCTURAL ADJUSTMENT LENDING

Senator INOUYE. In fiscal year 1987, the first review of experience with the structural adjustment lending was undertaken by the bank's independent operations evaluation department.

Based on performance audit reports of 15 SAL's in 10 countries, the review concluded that the SAL experience has been mixed, and none of the 10 countries succeeded in fully implementing the reform on schedule.

What accounts for this failure?

Mr. MALPASS. I think that is a good and complicated question.

Policy-based lending, if I may use that term to group both structural and sector adjustment lending, is a difficult undertaking for countries themselves, and it is a difficult undertaking for MDB's to assist in that effort.

If we could look practically at what the objective is in policy-based lending, the institutions are trying to assist the country to make major changes in one of its sectors or in the economy as a whole. This is a relatively new undertaking for the MDB's, one on which I think they can make substantial progress in the future.

The United States has encouraged the MDB's to engage in and, in general, to increase the amount of policy-based lending that they undertake because we believe it is in that method that the country can make the economic reforms that will lead to long-term sustained growth.

So specifically with regard to the experience with SAL's, we would probably recognize that there have been some shortfalls in the ability of the countries to make reforms. That is something that we work actively on and regularly to find ways to help the countries actually go through the reform process.

The Chairman is quite familiar with difficulties in structural reform here in the U.S. budget, and to an extent the developing countries often experience the same difficulties in making reforms. We hope that the banks will do better over the next 5 years in their structural adjustment lending. We also hope that the developing countries will do better in completing the reforms that they undertake.

Senator INOUYE. How would it adjust the future of the SAL's in light of the bank's conclusion that the country is unable to meet the scheduled targets?

Mr. MALPASS. The report was really based on the early SAL's, the ones that were made when the IBRD was just starting its policy-based lending program. The report itself was an attempt by the bank to learn from that early experience, so to an extent they embarked on this new lending course and then reviewed their progress and have fed that back into the process for new lending.

So we hope there will be substantial improvement.

Senator INOUYE. Now I am pleased to call upon my distinguished colleague and ranking member of the committee, Senator Kasten.

STATEMENT OF SENATOR KASTEN

MDB ENVIRONMENTAL REORGANIZATION

Senator KASTEN. Mr. Chairman, thank you. I apologize for not being here at the outset of the hearing.

I am happy to have this opportunity to review what we have been doing with some of the multilateral development institutions.

Since this subcommittee first intervened with environmental objections to multilateral development bank lending, we have seen significant progress, and I think that that is important.

Under the leadership of this subcommittee and also of Treasury Secretary Baker, we can point to a number of significant achievements. Most notable is the environmental reorganization that has occurred at the World Bank. That reorganization closely tracks the reforms called for by this committee, and I appreciate your efforts in working that way.

Unfortunately, although we have made progress at the World Bank, that progress has varied greatly from institution to institution within the multilateral development bank community. While each of the regional multidevelopment banks are making some progress, I think the progress is still grossly inadequate.

The World Bank has been the focus of most of this subcommittee's environmental criticisms, but that, frankly, will no longer be the case. We have to look more closely at some of the other ones as well.

I am deeply concerned that environmental criteria are not being given adequate attention at each of the regional multilateral development banks. Neither is there adequate environmental expertise nor adequate attention given to overseeing the implementation of loans.

ENVIRONMENTAL CONCERNS OVER BRAZILIAN ROAD PROJECTS

The worst example of this is the dispute between our subcommittee and a regional bank on environmental performance on the ACRE road project in Brazil. I know that you are familiar with this because we have been working together.

This is roughly a continuation of the same road, BR364, which caused this subcommittee to first intervene in the project which dates back to 1984.

To the IDB's credit, it negotiated strict environmental criteria as a condition of financing the continuation of this road, but these criteria have not been observed.

After repeated letters from myself, from Chairman Inouye and others calling for the implementation of these contract provisions designed to protect the environment, the IDB suspended the loan. That was a correct step, and I commend the work of the Treasury in making that happen.

As far as I know, no one on this subcommittee opposes the construction of the road. In fact, I believe most of us support the road, but we do oppose the road construction without adequate environmental safeguards. These safeguards were supposed to be provided by the environmental conditions added to the ACRE project. To date, they have not been.

One of the key issues I hope that we can focus on is the status of the negotiations on lifting the suspension of this loan. What are the key environmental roadblocks remaining? How can we maximize our leverage to assure that if the road is built, basic environmental protection will be provided?

That is the question that I would like to discuss with you today. Where are we in terms of negotiating the environmental questions here? How can we maximize our leverage, the U.S. Government's leverage and this subcommittee's leverage, to assure that if the road is built that basic environmental protection will be provided?

Mr. MALPASS. Senator Kasten, I think you have been involved actively in these issues over the years, and, as you noted, the December suspension of disbursements was in part due to your active efforts and those of Senator Inouye in that project.

As for the current negotiations, the United States has a difficult role in that our preference is that the bank and the recipient countries actively negotiate between themselves. We do not want to create bilateral negotiation situations where the United States is effectively negotiating with Brazil.

Brazil and IDB reached a project agreement which they were supposed to fulfill, and then as Brazil fell away from compliance with that, IDB suspended disbursement.

I think at certain points it is highly beneficial for the United States to step in, as we as a government have, and to explain very clearly what our beliefs and thoughts on a certain issue are, as we have been doing.

As we go toward the future, the IDB is working with Brazil to figure out whether the environmental precautions that were agreed to in the loan can be met. The IDB has recently stationed a full-time environmentalist in its Brazil office who is working on these issues.

We are not aware of any intention at this point for IDB to resume disbursements on this particular loan. At this point, we think that there has not been much progress by Brazil to meet the concerns that IDB and we have with that loan unless the negotiations or the progress, let us say, is at an early stage.

We should note that disbursements are not being continued.

Senator KASTEN. I understand that you do not want to have the United States negotiating with Brazil. You want to have the bank negotiating. But at the same time, because we are contributing so much money to the IDB and we are a major leader in the overall group, I think that the kind of pressure we are putting on the institution and the organization, not necessarily with regard to Brazil but with all loans—and Brazil just happens to be a bad example right at this moment, but we would be just as concerned if this were going on in any other countries.

Mr. MALPASS. That is correct, and I did not mean to in any way discount the value of that U.S. participation. Our intent was that situation would be to work through our executive director's office within the IDB to monitor the status of the negotiations.

So I meant to describe that we are not in active negotiations with the Brazilian government on this particular project. We monitor the negotiations with the IDB.

MONITORING ENVIRONMENTAL PERFORMANCE

Senator KASTEN. The ACRE project has made me believe that the IDB needs to develop some kind of an overall system for monitoring environmental performance of loans.

Now, you said that they had an environmental person who is now in Brazil. We found that the IDB was ignoring many of the good environmental provisions associated with this loan, and until Senator Inouye and I intervened, frankly, the thing was just going as if environmental considerations were being avoided completely.

Right now, does the IDB have an environmental performance monitoring program in place? Is this what this person in Brazil is doing? Is the monitoring program working, or do we need to be doing more to assure that we can make it work?

Mr. MALPASS. There needs to be continued effort by the IDB and particularly other regional banks, as well as the World Bank, in the area of environmental monitoring and environmental content of their various projects. We have been working in each institution to express our views, to convey the views of the Congress, and to get actual changes made.

In the IDB they have set up within their loan development process a committee that reviews the environmental aspects of various loans. We would like to see that process continue or be strengthened, become more influential in the loan process within the IDB.

They have recently added to the environmental positions here in Washington four senior environmentalists who will be actively participating in that process.

But we share your concern and believe that there is a lot more work that needs to be done.

Senator KASTEN. This is a value judgment, but you know, we have made a lot of progress in the World Bank. We have made a lot of progress in the African Development Bank. And it seems that we are making almost no progress right here in our own hemisphere.

IDB CONCERN WITH AMERICAS

The IDB should be the one MDB that is concerned with the Americas. It should be the one that we are closest to, and yet it is the worst.

Is there any reason? What can we do for the IDB to get its people to wake up?

Mr. MALPASS. We are hopeful, with the new President, President Iglesias, becoming involved in the bank and reassessing the role of the bank in Latin America, that these environmental concerns, the ones you and Senator Inouye and I share, are given more account within that bank.

This has been a real problem over the last several years, and I think there is a lot that they could do. One of the themes, I will call it, that I am going to be pursuing more actively is to evaluate the costs of environmental damage within the total cost of the loan project.

Over the years there has not been enough done on that. Some of the banks have made some progress in evaluating the long term costs, for example the intergenerational costs, when a tropical rain forest is cut down. If you focused on the very narrow time frame, you might calculate that there were economic benefits from that.

But we know that over the long run there are not economic benefits from ignoring this type of cost.

Senator KASTEN. You are right, but the question I have is why are we not making more progress with the IDB, as opposed to the other banks?

Mr. MALPASS. OK. Now——

POLORONESTE PROJECT

Senator KASTEN. Basically we began with Poloroneste and what we have now is an extension of Poloroneste. The World Bank has basically dropped that whole development, and now you have got the IDB going on with it.

Why is it that this one group of people seems to not get the message, where the people all around the world, in all of the others, at least are giving lipservice to our concerns?

Mr. MALPASS. I share your frustration. We for 2 years have been in negotiation with the bank, where we feel we have had some reasonable interests and desires for change, and have been frustrated thus far in that effort.

However, we are optimistic now with the new leadership in the bank, President Iglesias has taken a particular personal interest in the environmental concerns. He has expressed an interest in working directly with the nongovernmental organizations in these countries.

And so we are hopeful that some of this will change over time. And we will be pushing that strongly, I should note.

Senator KASTEN. We are going to be pushing you strongly.

Now, I think it is important to put on record the fact that Secretary Baker and everyone in the Treasury Department has been working with us. And this has been not an adversarial relationship between the Treasury and the subcommittee.

The difficulty has been the multilateral development banks, and particularly the Inter-American Development Bank.

Mr. MALPASS. That is very correct, sir. I am testifying tomorrow to the Senate Foreign Relations Committee on environmental concerns specifically, and one of the themes of that testimony, which I am in the process now of actively reviewing, is the idea that the goals that the administration has are now very similar to the goals that Congress has had.

I am not sure that was the case over the last decade or 2 decades. But now we are at a point where there are very common goals between us, and that will be effective within the banks.

I think we are at a point where followthrough is a key element of this.

IDB ENVIRONMENTAL STAFFING

Senator KASTEN. I just want to make one further comment. I am told that the Inter-American Development Bank has over 2,400 employees. So having two environmentalists or ecologists on staff is a step, but it is certainly a long way from a giant step forward in terms of recognizing what they ought to be doing.

Mr. MALPASS. Certainly. But one of the most effective things that we can do within the organizations is promote the training efforts that they are undertaking, because to an extent they are never going to have a huge staff of environmentalists.

The key thing is that every loan developer within the institution has some environmental concerns embedded in him. We have been encouraging training efforts within each of the MDB's. I think they have recently had a seminar for 40 of their primary loan reviewers. That sensitivity process or awareness process teaches that environmental problems cost the countries money and degradation of their environment, and therefore it is beneficial to change. Getting them all aware of that may work as well as adding environmentalists.

TAIWAN

Senator KASTEN. Let me if I can switch to a different part of the world and a different subject. As I know you are aware, Congress adopted language in the continuing resolution which calls upon the administration to request that the Asian Development Bank reopen the issue of Taiwan's designation in that institution in order to come up with a designation which the government of Taiwan can support.

Could you tell me what the status of that matter is? Have we reopened this question? Have any meetings been held on this issue yet, and what kind of progress are we making to try to get this difficult problem solved?

Mr. MALPASS. You will recall the history of the issue, that in the last capital increase negotiation with the bank there were active negotiations on Taiwan's name. And the outcome, frankly, was that while the United States did not support the outcome of the negotiations, there was a consensus formed within the bank.

Taiwan disagreed with that consensus and stayed away from bank participation for the last couple of years. It is our understanding that Taiwan will participate more actively in the upcoming annual meeting, and that they have reassessed their interest in participating in the Asian Development Bank.

One thing I should note is that in many other international organizations Taiwan has been excluded completely in favor of China. That has happened in the United Nations and in other international bodies.

So while we share the sense that you expressed in the continuing resolution, we feel that we are approaching an acceptable outcome that will allow Taiwan to participate in the bank.

Senator KASTEN. Well, I understand what has taken place in the past, and I understand that that consensus was reached, and I understand that, although we might not have supported that designation, we acquiesced and Taiwan lost its strongest partner in that negotiation, the United States, because we kind of stepped back and then we ended up in a position where the name change took place.

It was the view of many that a name change was not acceptable to Taiwan. That is why the Congress wrote what it wrote in the continuing resolution, explaining that we do not need to go back, the result we have is not acceptable and we request the administration reopen the issue of Taiwan's designation in the Asian Development Bank.

TAIWAN DESIGNATION IN ADB

Has this administration in the past several weeks and months reopened this issue?

Mr. MALPASS. Yes. There was active discussion of the issue in January and February following the passage of the continuing resolution. And we recently reported to Congress on the results of those discussions.

Now, we are happy to note that Taiwan will be sending an official delegation to the Asian Bank at the upcoming meeting at the end of this month and will be again an active member and participate in the bank.

Senator KASTEN. What is the status right now of the discussions on Taiwan's designation in that institution? Are there discussions going on as to ways that we can alter their designation?

Mr. MALPASS. I do not believe that there are active discussions at this point, in that Taiwan will be sending an official delegation to the bank. Just a moment, please.

[Pause.]

Mr. MALPASS [continuing]. We can look further into this situation. But it is our understanding that during the discussions that we were involved in in January and February, the Taiwanese decided to send an official delegation to the bank and to return to active participation in the bank.

Senator KASTEN. The Congress is concerned that whatever designation Taiwan has in that institution is acceptable to Taiwan, and the Congress is concerned that the United States in effect went along with the consensus when, if it would have taken a hard line, we probably would have had a designation of Taiwan that would have been acceptable to them.

I want to make sure we understand each other. What we want to do is to change that designation and to work within the bank to get it changed. And the people who can lead in that are your representatives at the bank.

Mr. MALPASS. I will look again at this matter. We are looking forward to Taiwan's return to the bank in that they have a lot to offer within the bank. They are a powerful economy within the region. They have substantial resources, plus a lot of know-how on rapid development. We are hopeful that by again becoming active in the bank, Taiwan will bring some of that knowledge to other members.

SUBMITTED QUESTIONS

Senator KASTEN. There are some additional questions that we will submit for the record. And I think there are other members of the committee who may have questions to be submitted for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR INOUYE

INTER-AMERICAN DEVELOPMENT BANK (IDB)

SENATOR INOUYE: During our March 30 hearing with Secretary Baker, an article which recently appeared in REGARDIE'S magazine was introduced into the hearing record. The article was highly critical of the management and operations of the Inter-American Development Bank. Secretary Baker appeared to have been taken by surprise by the article which was published just a few days prior to his appearance.

Has the Treasury Department developed a review of the factual accuracy of this article? If so, will you share it with us now?

Do you have a more detailed commentary which you wish to submit for the record?

Would you ask the U.S. Executive Director to the IDB to provide the Treasury Department with the Bank's commentary on this article and submit that for the record of this hearing? It might also be useful to place into the record the Bank's justification for the purchase of its current headquarters building. Would you see that is also done?

MR. MALPASS: My understanding is that the REGARDIE'S article contained numerous factual errors and unsubstantiated allegations. The Bank has produced a background piece on the article which we will supply for the record.

1987 IADB ANNUAL REPORT

SENATOR INOUYE: According to the 1987 annual report of the IADB, growth in Latin America and the Caribbean, "slowed last year, posting an expansion [in economic activity] of slightly more than 2%." This compares with regional growth averaging 3.8% annually between 1984 and 1986. What are the factors which have contributed most to this decline? What unilateral steps might the United States take to prevent a further slide in the Latin American and Caribbean growth rate? Tariff reductions on locally produced goods?

MR. MALPASS: According to the IADB preliminary estimates used in their Annual Report, none of the big four nations--Argentina, Brazil, Mexico, and Venezuela--attained growth of 4%. Reasons for low growth in these countries run the gamut of possibilities--low commodity prices, natural disasters, poor economic management, and necessary temporary retrenchment as governments attempt to restructure inefficient economies characterized by excessive and unproductive public sectors. Our analysis of real GDP gains in the largest countries confirms this:

-- Argentina. 1.6% growth, down from 6.5% in 1986 as reduced world prices for key commodities, floods, and disappointing domestic economic policies throughout much of the year took their toll.

-- Brazil. 2.9% growth, down from 8.2%, as two years of unsustainable domestic consumption gains with low investment and accelerating inflation finally made their mark.

-- Mexico. 1.4% growth, compared to a decline of 4.0% in 1986. Growth was constrained by continued efforts to control credit, reduce public sector spending, and cut inflation while restructuring the economy for higher long-term sustainable growth.
-- Venezuela. 2.8% growth, compared with 5.2% in 1986. Lower oil prices in the face of disappointing progress in the effort to diversify the economy were key factors, together with economic policies that continue to discourage capital formation (e.g., negative real interests and multiple exchange rate practices).

The best initiative open to the United States to promote and accommodate a timely recovery in the region is (a) persistent effort to resist protectionist pressures in the United States and other key markets, (b) perseverance in our present debt strategy so as to better assure a gradual return to market-based international financing sufficient to meet legitimate development needs, and (c) support for the GCI in the World Bank. In the Caribbean, rationalization of the world sugar market would be of significant benefit.

SENATOR INOUYE: According to the 1987 annual report of the IDB, for the fifth year in a row there has been a net transfer of financial resources from Latin America. Would the Administration support efforts to increase the integration of financial markets among groups Latin American and Caribbean states?

MR. MALPASS: We believe that improved intra-regional trade and finance operations are in everyone's best interests. Prior to the debt crisis, many of these nations had begun to enjoy the benefits of increased trade, investment, and capital flows among themselves within the region. This regional integration suffered badly in the initial years of the debt crisis as troubled debtors sought to cut back on imports and restrict capital flows. Today, there are a number of promising signs that integration of production, as well as trade, may again be occurring. The recent treaty negotiations between Brazil and Argentina are a case in point. In a similar shift to more pragmatic policy, the Andean Pact nations are liberalizing their foreign investment policies. Increased attention to the development of local capital markets and the need for positive real rates of interest have helped stimulate development of increasingly important debt/equity swap programs which should prove attractive to regional investors as well as those in major creditor countries. The Administration supports appropriate World Bank project lending designed to facilitate the development and diversification of integrated financial markets in the region.

AFRICAN DEVELOPMENT BANK (AFDB)

SENATOR INOUYE: The Fourth General Capital Increase of the AFDB's ordinary capital resources was negotiated in November, 1986. The United States secured important changes in Bank policies in these negotiations including more effective country programming and lending operations through development of country strategies. How have these changes succeeded in bringing about a more efficient use of Bank resources?

MR. MALPASS: Systematic preparation of country program papers started in mid-1987 following approval of the approach and format during AFDF-V negotiations. Since then, four country program papers (for Rwanda, Tanzania, Togo and Mali) have been discussed by the Board of Directors. Several others are under preparation. Programming missions have visited member countries to discuss the content of Bank group assistance, to identify areas of dialogue with respect to policy and institutional reforms and to program Bank Group operations. The findings of these missions have assisted in the preparation of the three-year rolling lending program 1988-90 , and will be used in its on-going review. Overall, there is increased understanding in member countries of the need to program and focus Bank Group intervention.

SENATOR INOUYE: How has the AFDB strengthened its coordination with other donors to enhance the absorptive capacity of the recipient nation and its ability to service external debt?

MR. MALPASS: Coordination with other donors has been strengthened on several fronts. The Bank Group has continued to participate in consultative group meetings and an agreement has been reached with the World Bank to permit AFDB to participate in the earlier stages of document review. In February 1988, the AFDB participated in an IBRD/IMF meeting to review the preparation and utilization of policy framework papers that are now the basis for lending by IMF and IBRD. An understanding was reached that there would be more consultations with AFDB and other donors. In December 1987 and March 1988, meetings involving AFDB and other donors were held under the auspices of the World Bank to develop a coordinated approach tc policy-based lending in the debt distressed countries of Sub-Sahara Africa. Consultations are also continuing on individual countries to determine the appropriate resource mix in light of the debt problem.

SENATOR INOUYE: How has the AFDB enhanced its efforts to improve project quality and ensure consistency with borrower country strategies as promised in negotiations with the U.S. on the Fourth Capital Increase?

MR. MALPASS: The process of preparing country program papers enables the Bank to identify key sectors for Bank intervention consistent with a borrowing country's strategy. Following this definition of priorities, an appropriately composed identification team (i.e., with the requisite expertise) is sent to the country to identify specific operations. This permits the building of a pipeline of projects that respond better to country priorities and Bank objectives. There is also increased use of technical assistance resources to prepare projects and strengthen the various country institutions. This is complemented by numerous efforts to introduce improvements at various stages of the project cycle. In addition, collaborative efforts with FAO, WHO, UNESCO, UNIDO, etc., have been enhanced to improve the quality of projects in their respective sectors of interest.

A further set of criteria for measuring the quality of projects is being developed to assist in the mid-term evaluation of GCI-IV and AFDF-V in 1989. We hope to see further progress in this area.

SENATOR INOUYE: What lessons has the AFDB learned through its recently instituted practice of conducting intensified monitoring of project implementation and post evaluation study?

MR. MALPASS: Monitoring project implementation is undertaken to ensure that loan resources are being utilized properly and to assist borrowers to address problems associated with project execution. Project monitoring is undertaken directly through project supervision or indirectly by monitoring units incorporated into projects financed by the Bank. Lessons emerging from the Bank's experience in project monitoring include the following:

1) Monitoring compliance with implementation procedures in critical areas such as procurement and disbursement can enhance benefits accruing to borrowers;

2) Regular monitoring can minimize delays in project implementation and avoid cost over-runs; and

3) Effective monitoring can enhance the achievement of project objectives and the realization of desired impacts.

In order to strengthen project monitoring, measures have been adopted to increase the frequency of supervision, make appropriate selection of monitoring staff and improve the quality of reporting and feedback.

A total of 53 completed projects in various sectors have been post-evaluated since the establishment of post-evaluation activity in the Bank. Various lessons emerge from these studies and include the following:

1) In the the agricultural sector the performance of projects is influenced by institutional and policy factors such as the land tenure system, the participation of project beneficiaries, and the availability of appropriate incentives;

2) In the transport sector, especially the roads subsector, project performance is influenced by investment-related factors such as the existence of complementary investments in the project area, and the availability of maintenance resources, e.g., recurrent financing and technical know-how;

3) In the area of industry and development banks, the emerging lessons underscore the importance of appropriate policy environment, and the efficiency of intermediary financing institutions.

In general, successful project implementation is determined by some key factors: the soundness of project preparation; the institutional and administrative capacity of borrowers; the familiarization with Bank policies and procedures on the part of borrowers; economic conditions in borrowing countries; the adequacy of infrastructural facilities; and the availability of counter-part funds.

SENATOR INOUYE: In the report accompanying last year's Foreign Operations bill, S. 1924, the Committee directed that the cooperative agreement undertaken between the United States African Development Foundation and the African Development Bank should "be strengthened by the inclusion of a jointly financed facility to provided training and credit assistance to informal sector businesses and family enterprises in Africa." What progress has been made in negotiations between the African Development Foundation and the African Development Bank to implement such a facility and enhance their joint cooperation?

MR. MALPASS: Discussions on the establishment of the facility by the two institutions are continuing. A proposal was made last year by the US African Development Foundation and submitted to the AFDB which welcomed the objectives of the proposal and made other comments. A revised version of the proposal was then prepared by the Foundation and resubmitted to the Bank early this year. It has been jointly agreed that the Bank should be given time up to September 1988 to further study the proposal and decide on its mode of participation in the facility. In the meantime, terms of reference for a study on Bank Group assistance to small-scale private enterprises have been finalized. A timely completion of this study could help in guiding the operations of the envisaged joint facility.

SENATOR INOUYE: The AFDB is increasing its structural adjustment lending, traditionally the domain of the IMF and the World Bank. Does the AFDB plan to conduct the same policy dialogues with African countries as the Bank and the IMF, and utilize conditionality in providing these loans?

MR. MALPASS: The African Development Bank's policy dialogue with member countries has similarities with those of other multilateral development banks (IBRD and IDA, in particular) in the sense that they work along broadly similar lines in addressing policy issues (especially when they co-finance structural adjustment programs). The AFDB, as was agreed in the GCI, conducts inital policy based lending in collaboration with the IBRD. Policy-based loans provided by AFDB and co-financed with the IBRD have the same policy conditionalities; examples of these are the policy-based loans to the Congo, Morocco, Mauritius, and Sao Tome and Principe.

SENATOR INOUYE: Will the United States encourage the AFDB to cooperate more with the World Bank in policy reform areas?

MR. MALPASS: Non-project lending requires, in particular, greater coordination among donors with the borrower itself playing an active role. Thus, the United States continues to emphasize the importance of AFDB coordination with the World Bank in order to improve the effectiveness of both project and non-project lending. In particular, we have encouraged the AFDB to 1) formulate a concrete approach for enabling more effective and more frequent Bank Group involvement in Consultative Group and other coordination mechanisms; 2) develop guidelines for staff to promote operational level coordination with other donor programming in recipient countries; and 3) plan carefuly the assignment of organizational responsibility within the Bank to ensure adequate coordination, including staffing implications and the role of AFDB resident offices. Policy framework papers should provide a focal point for AFDB and World Bank assistance in the formulation of macro-economic and structural reform programs. Through this and other efforts AFDB-World Bank collaboration should be greatly strengthened.

SENATOR INOUYE: What specific projects does the AFDB have planned to encourage both the domestic and foreign private sectors?

MR. MALPASS: The Bank, through its lines of credit to national and regional development finance institutions, has provided assistance to the private sector over a number of years. More recently, it has taken new initiatives to assist the private sector more directly. An example is the recent export stimulation loan to Nigeria in which the beneficiaries are exclusively those in the private sector. The recent creation of the African Project Development Facility, and current discussions on the establishment of an African Management Services Company are further examples. The establishment in early 1988 of the President's roundtable of African businessmen to assist the Bank to identify mechanisms through which it could play a much greater role than in the past in assisting the private sector, both foreign and domestic, is yet another example of a project of this type. In addition to its internal meetings, the roundtable will meet with similar groups in the United States, Japan and other major industrial countries to discuss common issues, to learn from the experience of businessmen in different countries, and to initiate action for joint ventures in Africa. Within the Bank, a private sector promotion division has been established to develop policies, strategies and procedures for Bank Group intervention in the private sector.

SENATOR INOUYE: Could you comment on recent reports that the AFDB's non-regional members, in particular the U.S., have attempted to gain an inordinate share of influence in the Bank, and that some frictions have resulted between the non-regional and regional members?

MR. MALPASS: Measuring the influence that a single country has in a multinational institution is a difficult task. However, the United States has not attempted to gain an inordinate share of influence in the African Development Bank. Moreover, instead of frictions between the non-regional and regional members, the U.S. representatives to the AFDB have worked to bring about cooperation among the Directors, Bank Management and staff on important issues. We should be mindful, however, that unlike the other Multilateral Development Banks with which this committee deals -- the World Bank, the Asian Development Bank, and the InterAmerican Development Bank, the U.S. shareholding and associated voting strength in the AFDB is only 5.8 percent in contrast to 34 percent in the IDB, 18.75 percent in the World Bank, and 16 percent in the Asian Development Bank.

SENATOR INOUYE: The Bank will be celebrating its 25th anniversary in two years. What do you hope will have been its major accomplishments in the twenty-five years and what vision do you have for its future?

MR. MALPASS: The Committee of nine recently established by the Bank is expected to address these key questions. But two points can be cited as instances of the Bank's achievement over the last 25 years. The first is the very fact that the Bank has, despite considerable skepticism expressed at its inception and afterward, become a viable development finance institution in Africa. Skepticism was expressed at its inception about its capacity to get the support of all African countries and to mobilize resources on any significant scale. This skepticism now only has historical relevance. Secondly, the Bank has contributed to an expansion of the continent's productive capacity and its economic and social infrastructure. At the end of 1987, U.S. $10 billion worth of projects had been financed by the Bank Group. About three quarters of these projects have been in the agriculture, transport and public utilities sectors. Maintenance has become much more of a serious problem than initially comtemplated; and the Bank has had to focus part of its lending on rehabilitation and maintenance. But there is no question that considerable physical and human capital has been put in place as a direct result of Bank/ Fund financing.

The future will see an African Development Bank Group much more active than in the past 25 years, not merely in terms of its volume of lending but much more importantly in terms of its contribution to resolving policy obstacles which so debilitate the efforts of its member countries. These obstacles relate to debt, private initiatives, incentives, environmental degradation, population, the marginal role women currently play in the formulation of development strategies, programs, and projects. Given the support of its membership and a determined management, there is no reason why the Bank cannot play an effective policy formulation role; and indeed become a knowledge center on African development.

MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)

SENATOR INOUYE: According to James Bovard writing in The Wall Street Journal (Dec. 22, 1987), a confidential memorandum from the Treasury Department dated August 28, 1986 stated that: "We can expect LDCs to actively oppose a policy reform role for MIGA. Developed countries will be neutral or lukewarm." Will MIGA have a policy reform role?

MR. MALPASS: The MIGA Convention, which has now been signed by 63 countries and ratified by 29 countries, clearly outlines a policy reform role for the Agency. Under the Convention, MIGA have to be assured that LDCs provide adequate legal protection and a conducive environment for development before writing coverage. The Agency will also provide advice and technical assistance to developing member countries on how they can improve their investment climates. It is our view that MIGA should take the lead on investment policy reform within the World Bank Group.

SENATOR INOUYE: What incentive is there for Third World governments to risk undertaking the policy reforms recommended by the IMF if MIGA is willing to insure private investment regardless of any changes taking place?

MR. MALPASS: Without policy reform, some countries may not have access to MIGA's coverage since investments in an unstable economic environment would generally not be eligible for guarantee. This issue would arise during MIGA's appraisal process, which includes an examination of a host country's economic policies. Furthermore, in contrast to the IMF, MIGA's policy review role is limited to investment matters and it will only guarantee investments -- not lend to member countries. Thus, MIGA is simply not an alternative to the IMF for countries in need of balance of payments support.

INTER-AMERICAN DEVELOPMENT BANK
INTER-AMERICAN INVESTMENT CORPORATION (IIC)

SENATOR INOUYE: In 1986 the Inter-American Investment Corporation (IIC) was established as part of the IDB to support private sector activities in Latin America through equity and loan investments that focus primarily on small and medium-scale enterprises. Legislation authorized U.S. participation in the IIC and a subscription of $51 million was enacted by Congress during 1984.

Where do the activities of the IIC differ from those of the International Finance Corporation which also extends loans to small and medium-scale enterprises and in which the United States also contributes to its lending pool?

The Administration is not making a request for budget authority for the IIC for FY 1989 due to the bi-partisan budget agreement to reduce the Federal deficit.

What signal does this send to those critics of American policy who argue that the United States is an unreliable partner in the multilateral banking system?

How will the sustainability of projects now underway be affected by the U.S. suspension of funding for the IIC in FY 1989?

MR. MALPASS: A major purpose of the IIC, which the IFC cannot serve, is to contribute toward the evolution of the IDB into an institution that better serves the development needs of its borrowers. The experience, insights and opportunities gained through the IIC should strengthen the IDB's own effectiveness in supporting the private sector through its regular lending program.

In addition, it is hoped that the IIC, through its close links to the business communities in borrowing countries, will reach smaller and, sometimes riskier enterprises than has sometimes been true of the IFC in the past. The IIC will give priority to investments in small and medium-scale private enterprises in Latin America and will invest only in private or "mixed" government/private enterprises that are controlled by the private sector. The IFC has often invested in "mixed" enterprises under government control.

All the MDB shortfalls, including our subscriptions to the IIC, have been included in the FY 1990 budget figures. Clearly, anything less than full U.S. funding for the MDBs violates the spirit if not the letter of replenishment agreements. The problem is that we have agreed to multi-year replenishments which will require about $1.4 billion of budget authority per year to fund but we have not been able to secure full funding of our requests. Since appropriations were not provided for the full amount of the MDB requests in FY 1986, FY 1987 or FY 1988, we now have a $405 million shortfall on top of the $1.4 billion of "new money" needed to meet current payments.

Given the constraints of the Bipartisan Budget Agreement, the best we can do is request funding of current payments in FY 1989 and include the shortfalls in the FY 1990 request. Other MDB donors understand our dilemma as they have been urging us to reduce our budget deficit.

The fact that the United States will not make a subscription to the IIC in FY 1989 will not detrimentally affect the institution's ability to carry out its programs in 1988 or 1989. The IIC currently has sufficient resources because it will be just starting operations this year.

ECUADOR AND VENEZUELA

SENATOR INOUYE: Presidential candidates in both Ecuador and Venezuela have indicated that if elected they would initiate radical action against foreign creditors. What would be the consequences for the United States banking community, if these two South American countries unilaterally delayed repayment or defaulted on their international debts? How would the U.S. respond?

MR. MALPASS: First, let me point out that it is not clear that these presidential candidates are actually proposing any radical solution. Countries frequently seek to renegotiate or reschedule their loan agreements as a response to changes in economic conditions. Moreover, presidential candidates frequently take a more considered view of the debt issue after becoming president.

Unilateral action on foreign debt has not been in the debtor countries' interest. Countries have found the "savings" from reduced payments on their debts have been illusionary since these "savings" have been negated by the loss of new credits and foreign investments.

It is difficult to say what the exact impact on such actions would be on the U.S. banking system. However, it should be noted that the financial position of the U.S. banking system is much stronger than it was five years ago.

The U.S. Government will continue to advise debtor nations that it is in their best interest to show good faith in working with the international financial system and that unilateral actions are counterproductive.

REFORMING THE WORLD MARKET ECONOMY

SENATOR INOUYE: In his opening remarks to the 1987 annual meeting of the Board of Governors of the World Bank President Reagan asked "... the people of the world to consider not piecemeal reform, but revolutionary change in the production and distribution of food and fiber." He proposed "a total phase out over the next 10 years of farm export subsidies, quotas, non-tariff barriers, and all distortions of agricultural markets." Given the inability of many Third World societies to achieve the terms of trade needed to compete successfully with large Western producers of agricultural commodities, how realistic is the President's goal?

MR. MALPASS: The goal is realistic, but as the President acknowledged in his address to the Board, it will require a revolutionary approach to policies affecting the production and distribution of food and fiber. All participating countries, developing and developed, will have to cooperate in the reform and all commodities will have to be covered.

The Administration believes that developing countries as a group have much to gain economically from agricultural reform that effectively dismantles the current protectionist system by eliminating subsidies and barriers to trade for all commodities. Clearly, it is in the interest of developing countries to actively promote the goal of reform because, if effective and comprehensive, it can provide increased economic opportunities and, thereby, spur sustained economic growth.

The collective advantage for developing countries may not extend immediately to developing countries individually, owing to their particular stage of development either economically or agriculturally. For this reason, the United States in the recent Uruguay Round negotiations on agriculture introduced its views that consideration should be given in the trade liberalization process to the needs of countries whose adjustments to a free trade environment would be a severe hardship.

Some developing countries are now mature competitors in world agricultural trade and will be able to undertake policy adjustments as called for by negotiated agreements. Others may be unable to agree to the full obligations and timetable for reform because of their level of development. Nevertheless, the enhanced economic opportunities of trade liberalization will be shared by developed and developing countries regardless of their relative standing in the world economy, and all need to share in the reform effort.

SENATOR INOUYE: One strategy recommended for African economic development is export-led growth. Unfortunately, Africa continues to suffer from falling prices for its commodity exports. Is export-led growth an appropriate strategy for Africa? What kind of exports should be promoted? What would they do to U.S. jobs and trade?

MR. MALPASS: We believe that export-led growth is the optimal strategy for African countries to follow in seeking to promote the development of their economies. This conclusion is supported by World Bank studies of the economic performance of a broad range of developing countries which show a strong association between rapid and efficient economic growth, on the one hand, and reliance on exports, on the other. Efficient export-led growth coupled with diversification of exports is especially important for the many African countries that are dependent on one or a few commodities for their exports. Such policies will enable them to earn more foreign exchange and make their economies less vulnerable to wide price fluctuations that have been characteristic of world commodity markets.

Under a liberal trade regime, expansion of exports should take place in areas in which a country has a comparative advantage -- in the case of most African countries, primarily in agricultural products. Since the volume of any additional exports would probably not be large and given the fact that the greatest proportion of the African countries' exports are to Europe, we would not expect any expansion of exports from the region to have a significant effect on U.S. jobs and trade.

SENATOR INOUYE: Over the next year or so Ghana, for example, will be spending roughly 67 percent of its export revenues in servicing its debt. How does this affect development in Ghana? Does the decline in the dollar help or hurt Ghana?

Mr. MALPASS: Although the servicing of Ghana's foreign debt is high, it is being offset by concessional capital inflows and grants. A large proportion of these funds promotes economic development and is contingent on the Ghanaian Government continuing to follow sound economic policies.

The depreciation in the dollar hurts Ghana to the extent that it imports goods from non-dollar countries, mainly in Europe and Japan. As the dollar depreciates, there is a decline in the amount of goods Ghana can buy from these countries with the earnings from its dollar-denominated exports.

IS GLOBAL DEBT OUT OF HAND?

SENATOR INOUYE: The most recent indications suggest that in 1986, by comparison with 1985, fewer countries (23) had recourse to IMF resources. Yet, total IMF standby commitments to program countries increased from Special

Drawing Rights (SDR) 3.3 billion in 1985 to SDR 3.6 billion in 1986. For the first time in its history, repayments to the IMF have exceeded its lending. Does this suggest that changes are needed in the way international adjustment lending is carried out?

MR. MALPASS: The IMF has continued to play an active and central role in helping to meet the adjustment and financing needs of countries facing balance of payments difficulties.

Though total IMF financing commitments have declined since 1985, the number of programs has increased. At the end of 1985, 32 members of the IMF had programs in place, representing total commitments of SDR 9.8 billion. At end-1986, 40 IMF programs were in place representing SDR 5.3 billion of commitments. By the end of 1987, the number of Fund programs further increased to 44 -- and commitments were SDR 6.7 billion.

The Fund has received net reflows in recent years: SDR 1.8 billion in 1986 and SDR 4.6 billion in 1987. These reflows are not a source of concern, however, as they are appropriate and consistent with the unique and revolving character of the IMF. These heavy reflows reflect the substantial IMF lending in the early 1980's and the fact that many countries that obtained IMF loans in the past are no longer seeking assistance.

SENATOR INOUYE: How widely applicable is the Mexico Plan to the debt problems of nations outside of Latin America?

MR. MALPASS: Replication of the Mexican debt/bond conversion is an alternative for those countries with sufficient financial resources to collateralize a portion of their external debt. Such resources can include foreign currency reserves or funds gained through the privatization of state-owned enterprises.

SENATOR INOUYE: Would broader adoption of the Mexico Plan achieve necessary changes in international lending?

MR. MALPASS: The current debt stragegy is an evolutionary one. By emphasizing a diversity of options for commercial banks, the "menu" approach to commercial bank financing provides a vital mechanism for sustaining commercial bank support and assisting the return to creditworthiness.

The recent Mexican debt exchange offer is an innovative financing technique which can increase flexibility for dealing with the current stock of debt. I expect that other creative financial market instruments of a similar nature will be developed in the period ahead.

DEBT-EQUITY SWAPS

SENATOR INOUYE: What is your position on debt/equity swaps as a means of relieving LDC debt, and do you envisage a role for the United States Government in helping to enforce such arrangements?

MR. MALPASS: Treasury is a strong advocate of debt/equity conversions and the important supportive role they can play in the debt strategy. Greater resort to equity financing can help strengthen the financial position of the corporate sector within developing countries, while also enabling both domestic and foreign investors to provide risk capital to generate needed growth and development as an alternative to debt financing. Debt/equity swaps also lower the stock of debt and reduce debt service burdens. Some $7.5 billion in debt/equity swaps have taken place in 5 countries since 1985.

The United States Government has been helping to support debt/ equity swaps. In August of 1987 and February of 1988, the Federal Reserve Board adopted measures to liberalize the provisions of Regulation K pertaining to debt/equity swaps. The new provisions permit bank holding companies, through debt/equity swaps, to own up to 40 percent of the voting shares of non-financial companies and 100 percent of those being privatized. The new provisions also extend the holding period for such ownership.

AFRICAN RELIEF

SENATOR INOUYE: A recent report issued by a United Nations special advisory committee estimated that Africa will require an additional $2 billion a year in aid simply to maintain the prospects for growth and development realized in the early 1980s. The Committee, headed by British economist Sir Douglas Wass, was unanimous in its recommendation that this $2 billion be raised in part through debt relief, and in part through new flows of money. Furthermore, the U.N. committee noted that to be effective, this amount would have to be in addition to the $3 billion per year in extra funds already pledged by multilateral lending agencies in 1987.

Would the Administration be willing to support this call for additional aid in light of the sharp drop in private resources available to Africa since 1980? How can these additional resources be raised?

MR. MALPASS: Without endorsing the figures cited in your question, it is clear that some African countries will confront serious financing problems over the near term. Within our current budgetary constraints, we have sought to be responsive to this problem in our FY 1989 request. In particular, our request for IDA-VIII, $958 million, is critical to this effort as 45-50% of IDA-VIII is envisioned for Sub-Saharan Africa, much of it in direct support of economic policy reforms. Similarly, our requests for our shares of replenishment of the African Development Fund ($105 million) and the African Development Bank capital increase ($9 million in paid-in capital and $135 million in callable capital) are also important as this institution is expected to play an increasingly important role in dealing with African countries' economic problems. On top of this, of course, we have requested this fiscal year, $738.8 million in bilateral assistance for Africa and it is expected that a significant part of these funds will provided in support of African countries' policy reform efforts. While these amounts will not in and of themselves "solve" Africa's problems, the solution of which will depend also on African countries' own efforts, it is equally true that international support is essential if these efforts are to succeed. Accordingly, we strongly urge Congress to support the Administation's FY 1989 foreign assistance request.

ROBINSON DEBT PLAN

SENATOR INOUYE: Last month American Express Chairman James D. Robinson III proposed a plan which calls for a new agency to buy up debt at a discount, with substantial new investments by the developed countries. The new agency, the Institute of International Debt and Development (I2D2), would purchase LDC paper from creditor banks at a deep discount, of perhaps 40%. The banks would then receive securities called "consols." Debtor nations then would pay I2D2 amounts, well below current costs, to service the consols. Old LDC debt would be "subordinated," theoretically making the LDCs eligible for new loans.

The Treasury Department is reported to have voiced strong criticism of the plan as have Federal Reserve Chairman Alan Greenspan and World Bank President Barber Conable. What is the basis for Treasury's strong opposition to the Robinson approach?

MR. MALPASS: We have looked into this and similar proposals and cannot endorse the establishment of an international debt facility.

Such a facility would involve a major transfer of risk on outstanding commercial bank loans from the private to the public sector. Mr. Robinson's proposal calls for wholesale securitization of commercial bank debt, and would require creditor countries to guarantee interest on these securities. Banks absorbing losses on their existing loan portfolios would be reluctant to provide new loans, even to those countries enacting appropriate economic reforms. Expectations of debt forgiveness would also undermine both new lending and debtor reform programs, further politicizing the adjustment process.

The key to sustained economic growth in debtor nations is market-oriented economic reforms. Such policy changes will provide a firm basis for stonger, sustained growth in these countries.

SENATOR INOUYE: Is there any reasonable alternative to the "subordination" of old debt? How else can LDCs gain access to new lending?

MR. MALPASS: The development of the "menu" approach to commercial bank financing has enhanced the flexibility of commercial bank support for debtors' reform efforts. Trade finance, project loans, on-lending facilities, and the like may be more attractive to banks, in order to target resources for growth. New money bonds can have the characteristics of senior debt. There is not a need to subordinate all old debt to assure financial flows, if debtor countries' policies are sound.

The surest way for developing nations to have access to new financing is to address measures that will boost investor confidence. An increase in the flow of non-debt creating financial resources, including direct and portfolio investment, can be encouraged by the liberalization of investment regimes, the privatization of publicly owned enterprises, supportive tax and pricing policies, as well as efforts to reduce fiscal deficits, control inflation, and assure realistic exchange rates.

SENATOR INOUYE: Robinson insists that nations benefiting from the discounted role of the debt would be subject to strict conditionality, (e.g. required to open their borders to trade and foreign investment, privatize state industries, reduce subsidies and encourage greater market competition). Since these objectives are similar to those enunciated by the Administration, why not maintain the Robinson plan as one option open to debtor nations?

MR. MALPASS: The Robinson plan isn't an option. It would penalize non-participating banks to force all to participate. The cost to creditor governments would be substantial, including an initial $12.5 billion of paid-in capital, plus an annual interest risk of $12.5 billion.

It also raises the "moral hazard" issue, that is, debtors would be encouraged to run down the value of their obligations through outright repudiation or economic mismanagement, in order to capture a larger discount on their debt.

We believe there are preferable ways to encourage debtor reforms, new lending and market-based mechanisms within the "menu" approach to permit reductions of debt and debt service burdens.

SENATOR INOUYE: In a speech in Zurich on March 8, IMF Director Michel Camdessus ruled out "radical approaches" to the problem of Third World Debt. He stressed that "the key responsibility for growing out of debt, of course, falls to the indebted countries themselves. There should be no illusions about that...." Furthermore, he said, "(The IMF does not intend to) relax the conditions it attaches to the use of its resources."

In the light of this commentary, how does Treasury respond to debtor nations who view MDB and IMF conditionality (i.e. requirements for policy and structural reforms), as a surrender of national sovereignty and incompatible with the maintenance of political stability?

MR. MALPASS: The contention that the IMF's and MDB's conditionality violates national sovereignty and is incompatible with political stability reflects a fundamental misconception about balance of payments problems and the roles of the international institutions. Typically, a country seeking IMF support is unable to obtain monies with which to finance its balance of payments position. In these circumstances, there is no alternative but to take measures that will restore equilibrium to the supply of and demand for financing. The international institutions facilitate this adjustment, provide financing, and catalyze additional resources from other sources.

The country, not the Fund or MDBs, decides on specific adjustment policies. Initially, the focus of adjustment tends to be on measures that will curb excess consumption, reduce imports and increase exports because these measures have a direct bearing on the resources available. Subsequently, a country can take longer-term structural reforms that lay the basis for a sustainable position commensurate with resumed growth and development.

The IMF and MDBs have placed increasing emphasis on structural measures to address external imbalances in the context of improved growth. The IMF Executive Board recently agreed to create the compensatory and contingency financing facility that will help to protect adjusting countries' programs from going off track due to unforeseen adverse external developments. Further, the IMF has recently enhanced the Structural Adjustment Facility to provide increased resources to the poorest countries over a longer period on concessional terms. In addition, the World Bank has been working to strengthen its ability to foster structural reforms through its special program for Africa, IDA, and a General Capital Increase.

BRAZIL

SENATOR INOUYE: Earlier this month Brazil abandoned its year-long moratorium on debt repayments and accepted a conventional debt rescheduling agreement. Commercial banks will provide $5.8 billion in new money in exchange for which Brazil will resume interest payments and work out an "adjustment" program with the IMF.

What effect, if any, will the Brazilian decision have on the commercial banking system which once again may be asked to reinvest in debtor countries before their governments have demonstrated an ability to meet the costs of servicing earlier loans?

MR. MALPASS: Brazil has the resources to service its external debt if needed domestic policy adjustments are implemented. Inappropriate, inward-looking domestic policies were the key problem behind the decline in growth last year.

Further, as with all concerted lending packages, Brazilian officials are currently discussing economic reforms with the World Bank and IMF, to help ensure economic stability and growth in the medium term.

DEBT RELIEF

SENATOR INOUYE: In the absence of significant debt relief, most Latin American nations still face the choice of meeting interest payments and accepting recession or of suspending their payments and facing international ostracism. Noted one recent New York Times article, "Peru has taken the second route with disastrous consequences, but those who have taken the first have done little better. They have been forced to slash imports, suspend investments, squeeze public spending, struggle with double and triple-digit inflation and risk social unrest."

What advantages do you see in the proposal to recycle interest payments back to the debtor nations, as opposed to other debt strategies? Should more countries adopt a strategy like that pursued by Bolivia in 1987, which provided for the buy back of its bank debt at 10 cents on the dollar?

MR. MALPASS: First, in response to the New York Times quote, it is important to note that, according to World Bank data, last year eight of the fifteen middle-income, heavily indebted countries achieved real growth of 4 to 5 percent. Furthermore, export earnings for the group were up by 13 percent last year, and imports rose by 7 percent; the aggregate current account deficit fell from $15 billion in 1986 to $8 billion in 1987; debt service ratios have fallen by one-quarter and interest service ratios by one-third since 1982. Inflation is also lower in 7 countries than in 1982-83.

Second, a form of recycling interest payments back to debtor countries, voluntary interest capitalization, is on the "menu" of alternative financing techniques. This may be useful in some cases as an option, but not for the full amount of interest due, which would raise the moral hazard problem.

In response to the replication of the Bolivian buy-back scheme, it is noteworthy that Bank of America spearheaded this voluntary transaction -- voluntary in that creditor governments provided official development assistance at their own discretion and banks tendered claims electively.

The international financial community was only willing to consider such an extraordinary arrangement because Bolivia had undertaken across-the-board reforms supported by the IMF and IBRD, but still lacked the resources to service its debts because of the collapse of the international tin market. This is fundamentally different from the situation with other major debtors.

DOMESTIC SAVINGS

SENATOR INOUYE: What can be done to encourage increased private savings and investment in the less developed countries?

MR. MALPASS: Developing countries need to implement market-oriented economic reforms to stimulate domestic savings and investment and attract foreign private investment. The World Bank and other multilateral institutions have provided strong support for developing countries' reform efforts through economic advice, technical assistance, and conditional lending in support of sound development strategies and economic reform programs.

CAPITAL FLIGHT

SENATOR INOUYE: What efforts are being made to stem capital flight from the less developed countries?

MR. MALPASS: Domestic macroeconomic and structural reforms to promote confidence and increase the returns on domestic investment are key to stemming capital flight and repatriating capital already sent abroad. Needed reforms include establishment of appropriate exchange rates, institution of positive real interest rates, and pursuit of policies aimed at containing inflation. A number of developing countries been successful in stemming and reversing capital flight by pursuing this approach. These efforts are being supported by financial and technical assistance from the World Bank, the IMF, and other multilateral and bilateral lenders.

FOREIGN CURRENCIES FOR DOMESTIC TRANSACTIONS

SENATOR INOUYE: What is the long term effect on development of the less developed countries of having citizens increasingly rely on the use of foreign currencies for domestic transactions, rather than those issued by their own central banks?

MR. MALPASS: We believe that the use of foreign currencies for domestic transactions tends to be harmful to the long term development of less developed countries. It interferes with the efficient mobilization of savings and allocation of those resources for investment through the domestic financial system. It also reduces a government's ability to manage its economy through monetary and exchange rate policy instruments. Inappropriate domestic pricing policies and overvalued exchange rates cause citizens to lose confidence in their own currencies and to rely on foreign currencies that they consider to be more stable. Developing country governments must allow domestic and currency prices to reflect market conditions to restore the confidence of their citizens as well as potential foreign investors.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

COMMODITY PRICING

SENATOR INOUYE: In 1986 and 1987 the economic scene in the developing countries was dominated by declines in primary-commodity prices, slow growth in demand from industrial countries and continued adjustment efforts. According to the World Bank's 1987 Annual Report, since 1980, "the dollar prices of primary commodities have fallen drastically -- by 1986, the average dollar price of developing countries' exports other than fuel had fallen by 26 percent." This was a 35 percent decline relative to the price of developing country manufactured imports. (p.45).

What has the World Bank done to stabilize primary commodity prices and to discourage surplus production?

MR. MALPASS: The World Bank in evaluating project proposals supporting production of commodities takes into consideration the implications for world commodity markets. In this regard, the potential for oversupply and price deterioration are critical. The World Bank makes projections of commodity prices that are, presently, fairly pessimistic. This poor outlook will discourage lending for commodities, especially to marginal producers.

In the framework of the GCI just completed, we have recently come to an agreement with the Bank on what it will do in the future. The management is aware of and responding to the concerns we have expressed. The specifics are:

1) The Bank will support production of primary commodities only where such production is efficient.
2) All Bank loans for primary commodities must be competitive and provide satisfactory rates of return without subsidies.
3) For any large project, systematic analysis will be made of the impact of the additional production on the global market.

The World Bank has done more than simply not make loans. On the positive side it has made loans that will help the borrower to diversify production and reduce dependence on commodities that are in oversupply. For example, the World Bank has helped Colombia reduce its dependence on coffee, and the Philippines reduce its dependence on coconut exports.

ENVIRONMENT

SENATOR INOUYE: The recent reorganization of the World Bank led to the creation of an environmental department.

What authority does it have to influence the direction of Bank lending policy and will its power extend beyond simply producing additional environmental resource studies?

In what instances have environmental considerations led to a restructuring or modification of a Bank project?

What steps are being taken to ensure that analysis and recommendations of the environmental department are free of political bias?

MR. MALPASS: The Environment Department is charged with developing issue papers and specific country studies which will identify types of projects and priorities for incorporating environmental concerns as an integral part of the Bank's lending operations. The best assurance we can have that this will take place is an increase in the number of projects which contain natural resource management components as well as projects which directly address environmental issues. Treasury loan analysts regularly review projects with a view towards ensuring the inclusion of environmental safeguards as a regular part of projects which significantly affect the environment. In this way we monitor environmental aspects of loans to ensure that the environmental department is not just producing more studies. Generally speaking, there has been an increase in projects which contain natural resource management as a component of the loan.

Projects in the World Bank with significant environmental impact are reviewed under the Early Project Notification System. The project which has received the most attention is the Brazilian Power Sector Two Loan. Treasury has carefully followed the progress of this loan to ensure that the appraisal has an environmental component to adequately ensure the resettlement of indigenous groups, the protection of land rights, and the assessment of the project's impact on the environment. The World Bank is well aware of Brazil's past environmental performance and has conveyed the concerns of the U.S. and other Board members to the Brazilian government. This will, we feel, result in a project which is designed to include environmental concerns.

Treasury will not support a loan if it appears that the project does not meet sound environmental and economic criteria. This policy reduces the chances that a project will be supported if it is politically biased, or based on questionable assumptions.

CO-FINANCING

SENATOR INOUYE: For the second consecutive year, almost half of all World Bank-assisted projects approved in fiscal year 1987 attracted co-financing in the amount of approximately $5.6 billion. The largest source of co-financing has continued to be official bilateral aid agencies and multilateral development institutions which together contributed $2.7 billion in fiscal 1987.

What efforts are being made by the Bank to expand its cofinancing arrangements with private sector institutions?

MR. MALPASS: The Bank attaches major importance to attractiing cofinancing from private sector institutions. The Bank's Co-financing Office and its Operations Department staff widely disseminate information to the private sector on available co-financing opportunities. The Bank's External Relations Department also has an active information program with the private sector. However, current market conditions are such that the results of these efforts have been disappointing. Nevertheless, the Bank is committed to continuing its strong pursuit of private co-financing.

ASIAN DEVELOPMENT FUND (ADF)

SENATOR INOUYE: The Asian Development Fund (ADF) was created in 1974 to provide concessional funds on a regular basis within a multilateral framework to the poorest countries in Asia. The Fourth Replenishment Agreement for the ADF was negotiated in 1986.

As part of the Fourth Replenishment Agreement, the ADF agreed to establish project quality safeguard procedures, including new internal procedures for improved management review of projects. What are these new procedures? Have these new procedures been put into effect? What assessment can you give as to the success of these new procedures in more efficiently using Fund resources without a corresponding degradation in development activity?

MR. MALPASS: At the initiative of the United States and other donors, the Asian Development Bank agreed to establish certain procedures to improve management review of projects. One of these procedures was to require that all program and sector loans would automatically be reviewed by senior management. These meetings (called the Loan and Technical Assistance Coordinating Committee, or LTACC) were previously only held to discuss controversial projects. It was felt that the nature of program and sector loans required a high level review, and this procedure is now part of the Bank's standard practices.

The Bank also drew up guidelines on policy dialogue. The United States had complained that there was no clear delineation of authority on policy dialogue, and that as a result the Bank's policy discussions were ad hoc and ineffective. In short, the new guidelines charge project staff (irrigation, energy, etc.) with carrying out policy dialogue. Macro-economic issues, where appropriate, are dealt with by the program staff.

As to an assessment of the new procedures, it is too early to give an exact analysis. Although it has been two years since the procedures were established, projects approved two years ago for the most part are still in a very early stage of implementation. We can say that there does seem to be an increased awareness on the part of the Bank staff of policy dialogue issues.

SENATOR INOUYE: The Fourth Replenishment Agreement also pledged the ADB to give greater encouragement to private sector development and to the privatization of public sector entities. Where and how have these efforts at private sector development and privatization been successful?

MR. MALPASS: Although the vast majority of ADB lending to enterprises has been to the public sector, the Bank has increased its assistance to the private sector in recent years. Most of this assistance has been channeled through government development finance institutions (DFIs) acting as intermediaries. More recently the Bank has increased its direct assistance to the private sector. The Bank introduced an equity investment program in 1983 and a lending without government guarantee program in 1986. At year-end 1987 the Bank had approved $38 million in equity investments and $32 million in loans without government guarantee. In 1988, the Bank has made a $24 million loan without a government guarantee to the Philippine Long Distance Telephone Company. Recently the Bank has begun to engage in capital market development activities, including underwriting of a regional equity fund to promote portfolio investment in equity markets in developing member countries. The Bank has provided technical assistance in several instances to prepare stateowned enterprises for privatization, including most recently a technical assistance program to consider the feasibility of privatizing the Philippine Airlines. Examples of recent private sector projects are:

-- Pakistan Industrial Leasing Corporation $2.0 million loan);

-- Korea Development Finance Corporation ($3.0 million equity investment and $2.0 million line of equity); and

-- Asia Development Equity Fund ($5.0 million investment and $5.0 million underwriting commitment).

Given the strong role that the private sector has played in contributing to development in Asia over the last twenty years, it would appear appropriate for the ADB to direct a greater share of its resources to the private sector. There are a number of areas where the Bank's role could be expanded. The Bank could make greater use of private sector financial intermediaries, as opposed to government DFIs, in channeling investment to private enterprises. Capital market development and privatization efforts could be strengthened. Direct investment in, and lending to, private enterprises could be increased.

SENATOR INOUYE: The Fourth Replenishment Agreement also pledged the ADB to place greater emphasis on technical assistance activities, and in particular policy-based technical assistance. Where and how have these efforts been successful in placing greater emphasis on technical assistance activities and policy-based technical assistance?

MR. MALPASS: The Fourth Replenishment Agreement provided for regular allocation of grant technical assistance funds amounting to $72 million. Recently the Bank's technical assistance funds were augmented by establishment of the Japan Special Fund which will provide roughly $80 million over four years for untied technical assistance.

In 1987, the Bank provided $41.8 million in technical assistance grants (funded by the Bank and other sources) for 141 projects, up from $36 million for 133 projects in 1986. Fifty-seven percent of the 1987 total was provided for advisory and project implementation purposes. Examples of policy-based technical assistance are:

-- Indonesia: Financial Sector Review;

-- Malaysia: Privatization of the Sabah Gas Utilization Project;

-- Nepal: Improving Government Financial Accounting and Auditing Procedures;

-- Philippines: Study on the Formulation and Monitoring of the Public Investment Program: Sugar Sector Rationalization Study;

-- Thailand: Improvement of Short-Term Economic Policy Analysis.

SENATOR INOUYE: In keeping with the Fourth Replenishment Agreement, has the ADB produced country strategy papers for most ADB borrowers in 1986-88?

MR. MALPASS: Country strategy studies had been prepared for Bangladesh and Pakistan prior to the 1986 ADF replenishment meetings. Since then, the Bank has prepared country strategy papers for Indonesia, Korea, Malaysia and Sri Lanka. Studies on Thailand and Nepal will be circulated during May 1988. Drafts of studies of the Philippines, Burma and Papua New Guinea have been sent to the respective governments for comment. (The Philippine strategy study should be available in mid-June 1988.) Studies for India and China have not yet been initiated.

AFRICAN DEVELOPMENT FUND (AFDF)

SENATOR INOUYE: The African Development Fund (AFDF) was established in 1973 to complement the operations of the African Development Bank (AFDB) by providing concessional financing for high priority development projects in the poorest African countries. In 1987, the AFDF made 70 loans totaling $769 million. The Fifth Replenishment Agreement for the AFDF was concluded in November, 1987. The U.S. was successful in the negotiations in having all of our positions on lending and policy issues adopted. The Administration has requested for FY 1989 $105 million in budget authority for the first installment of the U.S. contribution to the Fifth Replenishment of the AFDF. How will the AFDF go about promoting economic policies which assure the most efficient distribution of resources, including market-based incentive systems and appropriate pricing policies?

MR. MALPASS: The AFDF (and the AFDB) sees itself as an agent of constructive change in Africa and conducts a quiet dialogue with its regional member countries on sensitive issues (subsidies in one country, exchange rates in another, etc.) and an an explicit dialogue on issues which are less sensitive but nevertheless important (environment, privatization, women-in-development). In the former case, the dialogue is conducted informally and at a fairly senior level. In the latter case, it is done in the context of its program of lending. Market-based incentive systems, appropriate pricing policies, etc. are promoted in the context of project and/or structural adjustment loans.

SENATOR INOUYE: How will the AFDF go about achieving its agreed goal of eliciting or promoting the direct involvement of the ultimate beneficiaries, including women, in the design and implementation of projects and programs?

MR. MALPASS: A good demonstration of this is provided by activities related to women in development. The Bank has, with the financial contribution of the UNDP, established a women in development unit. The unit is already working with the projects and other operational departments with the objectives of incorporating women's concerns and involving women in the design and implementation of Bank Group financed projects and programs. Sensitization missions to member countries by Bank staff have already started, and a position paper giving the broad policy guidelines of the Bank on women in development has been prepared. A more detailed policy paper is in the pipeline. Guidelines and checklists to help staff of regional member countries and of the Bank in addressing women's concerns in Bank Group operations have also been developed. Further, contacts have been established with ministries and bureaus in regional member countries dealing with women's affairs, and an updated list of women's organizations in regional member countries has been obtained. The list will be made available for project and program missions so that women and their organizations could be consulted at various stages.

A specific approach to assisting the poor in the course of structural adjustment programs is being developed in collaboration with UNDP and the World Bank in the context of a recent project on the social dimensions of adjustment in Sub-Saharan Africa. This project should assist in designing poverty-alleviation programs and in generating methods of involving potential beneficiaries.

SENATOR INOUYE: Given that it will be difficult to find either domestic or foreign investors to buy off many African parastatals, is privatization really the answer at this stage of Africa's development?

MR. MALPASS: It is essential to raise questions of privatization in Africa in the broader context of private-sector growth in the African countries. Privatization of parastatals is only one way of promoting the private sector. The real question to ask is whether there is a potential for private sector growth in Africa and, if so, how that potential should be exploited. Many governments in Africa have now recognized the great potential for private-sector growth. They have also recognized that one important area that could be quickly exploited is small- and medium-scale enterprises.

The African Development Bank, in pursuing private sector development as an instrument of growth, recognizes that there is some scope, albeit limited, for the mobilization of domestic saving into equities. There is also a need to attract private foreign capital into the privatization process because experience in other emerging third world countries indicates that this is an important method of achieving fast economic growth. Efforts should be made by governments and other institutions (including AFDB) to put in place 'prerequisites' for privatization and private-sector growth such as the development of capital markets, especially securities markets; adoption of policies that encourage domestic savings and investments; establishment of wider regional markets; the pursuit of appropriate macro-economic policies; and the provision of key supportive inputs like managerial and other skills.

INTERNATIONAL FINANCE CORPORATION (IFC)

SENATOR INOUYE: A Special Task Force is now looking into the role of the IFC, the World Bank, and MIGA in private sector development. Its focus is on how they can better cooperate to achieve their common objectives. The Task Force derived from a recommendation made during the recent World Bank restructuring effort. Can you give an indication of what kind of recommendations the

Task Force is considering?

MR. MALPASS: Although the Private Sector Development Review Group is still at an early stage in its work, we know that it is looking at the role of financial policies in private sector development. In this context, we expect that they will closely examine the effectiveness of development finance corporations, which have served as the main instrument for channeling World Bank funds to small private borrowers. At this time, however, we do not know what type of recommendations the group is considering.

SENATOR INOUYE: Will the Administration be offering any suggestions to the Task Force?

MR. MALPASS: The Administration will meet with the Review Group through the U.S. Executive Director's Office at the World Bank. In our discussions, we will suggest that the Review Group carefully consider certain issues.

As I mentioned earlier, we know that the Review Group is considering the role of financial policies, and we agree that these are critical to promoting private sector development. In particular, we will suggest that the Review Group explore ways to encourage the free flow of capital through more effective use of policy-based lending. In addition, we will propose that the Review Group address the need for regular and effective communication between the IBRD, IFC, MIGA and the IMF.

We will also recommend that the Review Group consider possible measures to assure that the Bank's financial resources are increasingly available to directly support private-sector entrepreneurs in its member countries.

Finally, we will encourage the Review Group to study initiatives that would give the Bank a more active lead in encouraging efficient operations through the privatization of parastatals.

SENATOR INOUYE: Next year the IFC is expected to realize a $50-$60 million capital gain on its equity portfolio. This compares with a $40 million capital gain last year?

MR. MALPASS: The IFC did realize capital gains of roughly $40 million last year, but it's difficult to predict what their capital gains will be for fiscal year 1988. I can say, however, that during the first half of fiscal year 1988, the IFC realized $18 million in capital gains. While the IFC's equity portfolio includes substantial unrealized gains, the timing of equity sales and the realization of gains is always uncertain.

SENATOR INOUYE: What, if any, effect has the stock market crash had on IFC investments?

MR. MALPASS: If we compare the value of IFC investments at June 30, 1987 and December 31, 1987, it appears as though the IFC's portfolio was not significantly affected by the decline in world equity markets last October. First, the behavior of equity markets in developing countries was mixed. Second, share values in many developing countries rose substantially in the three months immediately preceeding the October decline. Finally, several equity markets -- Argentina, Korea and the Philippines -- recovered their losses by the end of 1987.

SENATOR INOUYE: What, if any, effect has the decline in the value of the dollar had on IFC investments?

MR. MALPASS: The decline in the value of the dollar has had a substantial effect on the reported value of IFC investments. Since early 1985, the non-dollar currencies most frequently lent by the IFC have appreciated significantly relative to the dollar. This has increased the size of the IFC's portfolio expressed in dollar terms.

INTER-AMERICAN DEVELOPMENT BANK (IADB)

SENATOR INOUYE: The IDB authorized only $2.36 billion in loans in 1987, compared with $3.04 billion in loans authorized in 1986. Fewer loans were made to projects in 1987 than in previous years.

Explain the basis for the Administration's contention, as outlined in its MDB Justification report for FY 1989, that: "By concentrating the available resources on the smaller countries of the region, the IDB could play a significant role in supporting development in the hemisphere."

MR. MALPASS: The IDB had $1.4 billion more in resources available for lending in 1987 than it was able to lend. The problem is not the lack of resources but rather the lack of good projects, especially in the less developed countries of Latin America and the Caribbean.

Even without a replenishment of resources we believe the IDB can and should play a greater role in the smaller countries of the region. Over the last five years the Bank has lent an average of $1.8 billion annually to the IDB's "Group B, C and D" countries. Since the Bank has available $2.5 to $3 billion per year to lend, it can significantly expand its activities in these countries. We are encouraging the Bank to increase its support for the non "Group A" countries and are working with the institution to strengthen its project development in those countries.

MIGA

SENATOR INOUYE: In a letter which was sent to me on November 30, 1987, Secretary Baker stated that: "The Treasury Department has consistently opposed all proposals to refinance outstanding FFB (Federal Financing Bank) debt, especially those proposals that have included ...a par repayment of any of the FFB debt using Government guarantees of private sector borrowings. We oppose such refinancing," you said, "because of the costs to the taxpayer, continued exposure of the American taxpayer to the borrower's defaulting and the guarantee being called..." How do you reconcile this strong opposition to U.S. Government guarantees with the Administration's support of the Multilateral Investment Guarantee Agency (MIGA) and its role in guaranteeing debt?

MR. MALPASS: MIGA's principal task is to guarantee new equity investments against political risks. As such, it will not guarantee debt against commercial risks, as is the case of conventional financial guarantees. In addition, MIGA will only guarantee loans on a very limited basis, and only to the extent that the loan is an integral part of a direct investment package.

In the letter to which you refer, we were concerned with a specific issue involving costs that would be incurred outside of the normal budget/appropriations process. These costs would have a material impact upon U.S. credit policy and Treasury market borrowing operations.

QUESTIONS SUBMITTED BY SENATOR DECONCINI

SENATOR DECONCINI: As you know, in the last session of Congress I introduced legislation which was approved by this committee to provide credit for the poor in developing countries through programs of micro-enterprise lending. It is my understanding that the Small Projects Program in the IDB, now in its 10th year, is the only on-going program for micro-enterprise lending in the regional development banks. How much are the average loans to these poor people? Are we working to extend more loans in smaller amounts?

MR. MALPASS: Although the IDB actively helps to foster microenterprise development through a variety of activities, the Bank's Small Project Program specifically provides credit resources for lending to micro-enterprises in Latin America and the Caribbean. The Small Projects Programs presently produces about 20 projects each year, committing between $8 and $10 million taking into account both the reimburseable and non-reimburseable technical cooperation components.

Micro-enterprise in the context of this program normally means very small production and service establishments in urban areas. All projects combine training with lending activities. The size of the loans to individual micro-enterprises depends largely on the type of program, the executing agency and their experience with the prospective borrowers. The loans made by some participating foundations and associations will be for equipment, tools and working capital to sustain new jobs and production output. Many such loans will be for about $1,500. On the other hand, some programs focus exclusively on lending for immediate, short-term, working capital needs, with many loans between $150 and $500. These tend to settle cash-flow problems of the micro-enterprises and enable them to define expansion needs that the larger loans can cover.

SENATOR DECONCINI: On a related issue, I am also concerned that further delay in funding U.S. participation in the Inter-American Development Bank will hold up lending which will benefit women in the region of Latin America and the Caribbean. It is my understanding that the IDB has approved a policy which will promote the provision of credit to women and to more fully integrate them in the economic mainstream of the region. Can you please inform me of the status of this policy recently approved by the Board of Directors?

MR. MALPASS: In August 1987, the Board of Executive Directors approved a policy statement on Women in Development directed at promoting greater access of women in the region to productive resources, services, and social and economic benefits. In particular, this policy addresses the problems currently faced by low-income women, especially female heads of households, in the area of access to credit, training and income-generating activities.

Within the areas of activity covered by the policy, special attention is given to the support of programs within mainstream Bank operations to address the legal and other barriers that women face in obtaining credit, and to strengthen intermediary credit institutions and informal savings cooperative where women are predominantly involved.

A detailed action plan outlining specific operational steps to implement is being prepared by an inter-departmental working group and will be submitted shortly to senior management for review and approval.

ANGOLA

SENATOR DECONCINI: Could you provide for this committee those loans which have extended to Angola over the last eight years through the African Development Bank and the African Development Fund? Are we actively working to oppose any future loans to Angol? Furthermore, according to Secretary Baker, the United States has been opposed to IMF membership for Angola. Is this still accurate?

MR. MALPASS:

The following is a list of cumulative loan approval s for Angola. The AFDB and AFDF did not provide any loans prior to 1983.

Name of Project	Date Approved	Amount of Loan
AFDB (4 loans)		(millions U.S.$)
Mid-level Staff Project	03/16/83	15.1
Telecommunications	10/18/83	31.6
Health Project	02/22/83	12.7
Artisanal Coastal fisheries dev. project	11/27/86	18.8
AFDF (3 loans)		
Cabatuguila Maimba Road Study and General Transport Study	02/24/83	3.6
Education Project	04/14/83	9.6
Health Project	11/10/86	18.1

In 1987, the African Development Bank and Fund did not provide any loans to Angola; between 1983-1986, only about 2 percent of AFDB/ AFDF lending went to Angola. To show our opposition, we abstained on all of these loans. We have abstained on all AFDB and AFDF loans to Angola on human rights grounds. The U.S. Executive Director has advised AFDB Management of our continuing opposition to loans for Angola; he has also conveyed the concerns of Congress. With regard to Angolan membership n the IMF, as Secretary Baker has explained, the Angolan economy is beset by severe difficulties which are exacerbated by the government's limited institutional abilities, making any successful economic reforms doubtful. Moreover, the ongoing civil war, which consumes the bulk of the government's revenues, will continue to hinder its ability to implement crucial economic reforms. In light of the continuing foreign exchange shortages and security problems, the economic outlook for Angola is difficult.

This situation raises serious questions about Angola's willingness and ability to fulfill the terms and obligations of IMF membership which involve a range of requirements, including the provision of extensive economic data. Further, it is not clear that they could implement the kind of market-oriented policy reforms advocated by the IMF or repay any obligations to the Fund which might arise. Accordingly, we do not consider Angola's membership in the Fund appropriate at this time.

QUESTIONS SUBMITTED BY SENATOR KASTEN

BOTSWANA ABATTOIR

SENATOR KASTEN: The World Bank has determined that 850 million people are directly threatened by the spread of desertification. Secretary Baker, at this Subcommittee's urging, intervened to have the U.S. Executive Director to the African Development Bank abstain on the Botswana Abattoir Loan. That loan was approved despite U.S. objections. What steps are being taken to minimize the adverse environmental consequences of this project? What environmental conditions have been applied to this loan? You want to focus on stocking rates. A new slaughter house is a good thing if the range stocking rate is actually reduced. I am concerned that not all cattle producers in Botswana have access to the export market.

MR. MALPASS: As you indicate, we abstained on that loan because of our concern about the lack of an adequate policy framework and our view that for that degradation would result. A recent memo of understanding between the National Resources Defense Council and the Government of Botswana regarding land management should help to ensure that the cattle sector in Botswana is developed in a more sustainable manner.

SENATOR KASTEN: What is the U.S. Executive Director doing at the African Development Bank to assure that cattle producers who operate in an environmentally sustainable manner have access to this market?

MR. MALPASS: The U.S. ED to the AFDB visited Botswana in April and held discussions with both governmental and non-governmental officials. He reiterated U.S. concern that the cattle industry in Botswana be developed in an environmentally sustainable manner.

REGIONAL BANK ENVIRONMENTAL STAFFING

SENATOR KASTEN: When I was at the African Development Bank last year, I was impressed with their support for the environmental reforms this Subcommittee has called for. However, this was not reflected in the in-house environmental staffing. There were two environmentalists on the staff, both provided by donor nations. The U.S. is now providing one as well. What is being done to increase in-house environmental staffing and expertise at this and the other regional banks?

MR. MALPASS: The AFDB has identified a person to head the Bank's environmental unit and contract negotiations are now underway with the candidate who is from one of the regional members of the Bank. At the Asian Development Bank, the environmental staff now consists of three staffers and a new office director. The ADB hopes to add one additional staff person to replace the office director who left recently. The IDB has persons at its Washington headquarters and one stationed in Brazil on the Bank's environmental staff. In addition, the IDB has six other professionals with environment-related qualifications. We are urging the Banks to continue to strengthen their environmental staffing.

ASIAN DEVELOPMENT BANK

SENATOR KASTEN: In late 1986 several widely respected publications, including the Far Eastern Economic Review, carried articles alleging that the Management of the Asian Development Bank had pressured Bank staff to increase lending quotas, even to the extent that ADB staff were pressured to falsify economic models so that the project would be approved.

Does the Treasury believe that there is any truth to these allocations?

MR. MALPASS: Not in the sense that the charges were made in the article. Professional staff can always differ about underlying assumptions that will govern the results of a model, but we do not believe that staff were instructed to fabricate data.

SENATOR KASTEN: Does the Treasury believe that the Management sets lending quotas and that staff are under pressure to meet these quotas at the expense of loan quality?

MR. MALPASS: We do not believe that Bank Management establishes lending quotas on a division by division basis. However, no organization like the ADB can work without indicative internal budgetary figures, including estimates for new loans. In transmitting these indicative goals to staff, individual division managers can sometimes become infected with a spirit of competition and peer pressure and exert pressure on staff to complete loans and bring them to the Board.

We think Management is very much aware of the need to maintain quality while at the same time making sure staff still have the proper incentives to complete their work in a timely manner. Management does listen to criticism and there have been improvements in loan quality, although more remains to be done.

INTER-AMERICAN DEVELOPMENT BANK (IDB)

SENATOR KASTEN: Mr. Malpass, I assume that you are familiar with allegations made against the Inter-American Development Bank that it engaged in "round-tripping" money to Managua in order to eliminate the Nicaraguan Government's arrearages.

Does the Treasury Department accept the IDB statement that Nicaragua had paid all the outstanding principal and interest before new disbursement were made, or do you accept the counter-view that this exercise was basically a ruse by the IDB and Nicaragua formulated to eliminate that Government's arrearages?

I understand that the auditor-general of the IDB has prepared a full report on this matter. Have you seen a copy of that report?

I think the Subcommittee would appreciate it if you would request a copy of that report so that we could examine it.

MR. MALPASS: It seems that Nicaragua took advantage of rather lax IDB policies and practices to, in essence, use disbursements due under outstanding loans to pay off loan payment arrearages to the IDB. This does not appear to be an isolated incident limited only to Nicaragua. Nicaragua immediately fell into arrears again and is not now eligible to receive further disbursements or new loans.

Under the previous management of the Bank, the Auditor General examined the issue and prepared an interim report. Based on the recommendations contained in that report, the Auditor General is continuing his investigation. The President has said that he will issue a final report to the Board of Directors when the investigation has been completed.

In the meantime, the current management of the IDB is in the process of implementing new procedures and practices so that transactions of this type cannot occur again.

SENATOR KASTEN: Also relative to the IDB, are you familiar with the recent article in Regardie's magazine, and if you are, do you have any general comments on that article?

Has the Bank issued a response to the criticisms contained in the article?

MR. MALPASS: I am familiar with the Regardie's article. It is my understanding that the article contained numerous factual errors and unsubstantiated allegations. The Bank has prepared a response to the article which we will supply for the record:

REGARDIES ARTICLE

BACKGROUND PAPER

1. 1300 New York Ave. costs

The Inter-American Development Bank entered into a lease-purchase agreement for the building at 1300 New York Avenue, N.W. on very favorable terms, including a fixed purchase price.

Office buildings built after 1970 in the general area of the Bank's building were sold at prices ranging from $136 per square foot to $271 per square foot. The purchase price of $145 million paid by the IDB for its new headquarters in January 1987 represented a rate of $192 per square foot.

After the IDB leased the facility, the building had to be fitted for office use. Special budgetary appropriations were approved for this purpose by the Bank's Board of Executive Directors. Construction expenditures incurred in fitting and adapting the building amounted to $42 million and were within the budget approved by the Board of Executive Directors.

In addition, in compliance with generally accepted U.S. accounting principles, the Bank was required to capitalize certain rental payments representing interest and other expenses incurred during the two years that the transition was taking place, amounting to $34 million. These were included in the Bank's financial statements audited by Price Waterhouse which showed that the total capitalized cost as of December 31, 1987 was approximately $221 million.

In moving to its new headquarters, the Bank transferred and continues to use furniture and equipment from the three previously occupied buildings. The decision not to replace such furniture and equipment at the time of the move was made in the interest of conserving funds.

Because the IDB is an international, inter-governmental organization which operates with four official languages, however, special facilities had to be provided at its new headquarters, including a board room, an auditorium and conference rooms equipped with instant interpretation facilities; special computer installations; a cafeteria, a library and other special use rooms. In addition, the building had to be equipped with security measures and some built-in furniture.

The lease-purchase agreement for the building at 1300 New York Avenue, including its fixed purchase price, represented a favorable arrangement for the Bank. Moreover, because of its location in a rapidly changing area of downtown Washington, it is believed the building can only increase in value. In the words of the appraiser:

> "1300 New York Avenue is a first class office property located in a rapidly improving area of downtown Washington which will come to rival most present prime downtown office locations within the next five years.
>
> "Unfortunately for the developer and construction lender, the project was delivered at the time of Washington's worst office space glut and represented the single largest commercial office building constructed in Washington history.
>
> "After an extended period of marketing efforts and foreclosure

> by the construction lender, a lease with purchase option was concluded with the Inter-American Development Bank (IDB). Based on our analysis this lease is favorable to the IDB primarily due to the fixed price purchase option."

The Washington Business Journal reported that:

> "The assessed value --$3 million more than the building sold for-- suggests that in paying more for a D.C. building than has ever before been paid, the bank got a bargain. The rate per square foot ... was $193; the rate can be as high as $300 in that area."

2. Health Insurance claims

In 1987, total reimbursements for health insurance claims totalled just under $7.3 million. Over the five year 1983-87 period, the reimbursement dollar value increased by 34.6% in nominal terms. Although it is difficult to make comparisons with other programs due to their varying nature, the 34.6% growth figure is comparable to that experienced by other organizations.

3. Health Facility

The Bank provides use of a room and separate dressing rooms for men and women for physical exercise of its employees. Fees for the part-time instructor are paid by the participants in the exercise classes and the Staff Association. The Bank had similar facilities in the previous buildings.

4. Salary Levels

IDB salaries are, on average, slightly below those of the World Bank. IDB salaries, like those of the other international institutions are based on data of comparable jobs in the private sector. Home leave for expatriate employees is designed to permit continued association with the home country and is not special to the IDB. There is an educational allowance for children of expatriate employees which is compatible with that provided by other international institutions, or by national government officials employed in other countries. The maximum amount is $3,500 per child, not $5,000. For example, the U.S. Foreign Service allows paid home leave and educational expense allowances for its foreign service officers.

5. Mexico city building

No building has been purchased in the historic district of Mexico city. The Bank has been exploring the feasibility of a purchase of a building in this area, but reached no final conclusion as to the legal arrangements that would be necessary. It exercised an option on parking space in the downtown area when it became available in anticipation of such a purchase (the fees collected have been held in Mexico in a separate account.)

6. Alleged telephone calls from Safe house in El Salvador

No inquiry or request was ever received by Bank officials concerning such alleged calls from members or staff of the Joint Congressional Committee that investigated the Iran/Contra Affair. Mr. Harpaz, an Israeli national, who works for the Bank (Israel is a member country of the Bank) denies ever having received any such calls or in any way being involved directly or indirectly, with aid to the contras or any other matter under investigation by the Committee.

7. President Ortiz Mena's alleged dealings with U.S. intelligence

This allegation may be actionable and, hence, comment would be inappropriate at this time.

8. Levinson and Sternfeld "regular" meetings with Tom Dine and alleged relation to Israeli intelligence

No such meetings ever took place. Mr. Levinson, through his lawyer, John Culver, Esq. has instigated legal action against the authors and Regardies requesting a retraction of statements alleging meetings with Dine and their supposed relationship to Israeli intelligence. Regardies has agreed to retract these allegations in its May issue.

9. Fujikawa Farewell

Mr. Fujikawa, upon his departure for return to Japan, invited Bank staff to a farewell party. Mr. Park apparently hosted the party for Mr. Fujikawa. No Bank official, before or after this affair, had any contact with Mr. Park.

9. U.S. companies bidding

It is not true "that "U.S. companies that bid on Bank projects are unlikely to get any business." It should be noted that the IDB does not itself award contracts. Contracts are awarded by the executing agency of the borrowing country according to strict bidding procedures. The IDB oversees procedures of bidding to assure fairness. U.S. companies have been awarded over the years a substantial amount of contracts for goods and services.

Year	Amount
1983	56,868,000
1984	66,063,000
1985	84,370,000
1986	75,426,000
1987	71,024,000

10. M & W Pump

The bid was rejected by the country involved because it did not conform with the invitation to bid. This is not a technicality. It is a requirement that is integral to the bidding process that the bid submitted conforms to the Invitation to Bid in order to assure fairness to all participants in the bid.

11. Failure of Bank Projects to help Poor People

The IDB has a specific target that 50 percent of the Bank's resources be used directly to benefit low income groups and it is the only organization that has included in its normal analytical processes an assessment of benefits to low income groups. It is true that "there has been trouble with every major country in Latin America." The debt burden, deep rooted social problems and sluggish economic growth, all have adversely affected the countries. It would be surprising if these circumstances had not impacted upon individual projects financed in part by the Bank.

The sawmill referred to in Honduras is the Corporación Forestal Industrial de Olancho (CORFINO) project which was studied and designed by

Canadian and European consulting firms. The project is now operating as a sawmill and exporting primarily to the Caribbean. At the request of the Honduran government, a consulting firm is about to initiate a review of the sawmill's current situation in order to recommend to the government various ways to utilize better the existing installations, including the possibility of allowing private sector interests to buy into the company. Thus, the saw mill does not sit idle and has generated employment in the area not only in the operation but also as a result of extensive road construction in the forest reserve.

The Bank's loans to help the agricultural sector in Peru have not "failed miserably"; the loans to help develop medium size cities in Brazil did not "go largely to waste". In both cases, the loan proceeds were used exclusively for the purposes authorized by the Board of Executive Directors. Similarly, the article's allegations with respect to a water supply project for Mexico city are unfounded. The project has accomplished its purpose, which was to add to and improve the water supply for Mexico city. It represented the best available technical solution to a difficult problem.

12. Norman Jones

Norman Jones, a Brazilian high level employee of the Bank retired in accordance with Bank policy when he reached retirement age. There was no other reason for his leaving the Bank. He reached retirement age almost two years after the alleged "incident".

13. Alleged scandal in Ecuador

There has been no "scandal" in Ecuador involving Bank projects.

14. Alleged $10 billion in capital

We do not know the basis for this allegation. The Bank's lending is strictly relating to the lending authority contained in its own Charter and to its capacity to borrow in world financial markets. There is no unused $10 billion cushion of available lending or borrowing capacity.

ENVIRONMENT

SENATOR KASTEN: The Committee has desired to see a shift in lending toward more environmentally beneficial projects. Has any such shift occurred in lending by these Banks? In particular, in the energy area the Committee asked for more emphasis on efficiency improvements.

Are these Banks lending more now for end-use energy efficiency? Please provide specific dollar amounts which would show whether progress is being made on this directive?

Similarly, the Committee asked for greater emphasis on agroforestry, mixed farming, multiple cropping, and investments in alternatives to chemical pesticides. What progress have each of the MDBs made in these areas? Are investments in chemical pesticides going down? Again, please provide the dollar amount being spent and indicate the percentage of total agricultural lending involved.

MR. MALPASS: Yes, we have seen an increase in environmentally beneficial projects such as agroforestry, which increased by 21% as a proportion of Forestry projects since 1977, as well as alternatives to chemical fertilizers. The Bank has contracted with an outside consultant to review overall guidelines and specific operations in order to better incorporate integrated pesticide use into the design of agricultural projects. Unfortunately, no separate data is kept on loans for pesticides, as this information is combined with other material inputs such as fertilizer etc. In the area of energy development, as our Environmental Progress Report indicates, we would like to see more improvement. However, this is not to belittle the significant progress which has already taken place. All power sector investments now require an environmental impact analysis. We are including for the record Bank projects between 1984 and 1985 which are primarily targeted to promote energy conservation. The Bank plans to carryout 23 projects in 1988 which will focus on improvements in power efficiency, and 13 projects which will focus on energy efficiency issues in the industrial and transport sector.

Bank Projects for Industrial Energy Conservation FY84-88:

a) China Fertilizer I - $97M; FY85--produced about 15 percent net energy savings by rehabilitating four large urea plants; also financed research and design work in energy conservation;
b) China Fertilizer II - $87M; FY87--will produce about 25 percent net energy savings by rehabilitating many medium-scale, old plants;
c) Indonesia Industrial Energy Conservation - $21M; FY87--will produce about 13 percent net energy savings in fertilizer plants;
d) Pakistan - Refinery Energy Conservation and Modernization $21M; FY87--will reduce fuel consumed by the refinery from about 6 percent to 4 percent of throughput;
e) Ghana: Petroleum Refinery Rehabilitation - $7M; FY84;

f) Thailand: Oil Refinery Restructuring - $20M component; FY85--reduced fuel consumption from 6 percent to 4.5 percent of throughput (expect to reach 4 percent soon);
g) Pakistan: Cement Industry Modernization - $96M; FY88--projected fuel savings of 57 percent by shifting from wet to dry process;
h) India: Cement Industry Project - $200M; FY86--projected fuel savings of 42 percent by conversion from wet to dry process;
i) Hungary: Industrial Energy Conservation II - $25M; FY86--credit line and institutional development for energy conserving investments;
j) Yugoslavia: Energy Conservation and Substitution - $80M; FY87--credit line for energy conserving investments;
k) Mali: Biomass and Energy Efficiency - $7.6M; FY85;
l) Peru: Industrial Energy Conservation - $4M; FY85; and
m) Tunisia: Energy Conservation Demonstration - $4M; FY87.

SENATOR KASTEN: The Committee has called attention to the serious destruction of important wetlands. Have the MDBs done anything significant to safeguard these areas? Are they refraining from financing their destruction, directly and indirectly?

MR. MALPASS: The MDBs are working on ways to protect wetlands, however more work will be required before a definitive wetlands policy is adapted in each of the banks. The World Bank has made the most progress in its overall wildlands policy, which calls for compensatory conservation of an area similar to the wildlands which is developed. The World Bank has also appointed task forces to study this issue in consultation with outside experts. The recommendations of these task forces are currently being evaluated by World Bank management. On the issue of proper management of critical ecosystems, the Bank is a key member of a joint effort with Harvard University and IIED to assess alternative institutional approaches to natural resource management and develop methodologies and guidelines in the institutional area specifically designed to deal with the management issues related to the management of natural resources.

The regional banks are continuing to develop a policy in the area of wetland protection. To assist them, the U.S. is developing its own set of guidelines regarding wetlands. These guidelines will be distributed to the management of the MDBs. However, the ADB has already prepared guidelines for initial environmental assessment of coastal area developments with more detailed guidelines currently under preparation. The IDB is also reviewing its own internal assessment of environmentally sensitive projects as part of its Environmental Work Program.

SENATOR KASTEN: Some MDBs have policy documents governing natural resource aspects of their lending. Has Treasury made any effort to ascertain whether existing policies adequately cover the environmental concerns noted in the Committee's directives, and the extent to which these policies are being implemented in the field? Has Treasury analyzed whether the regional MDBs have the capability to implement their official policies on environmental protection, conservation, and indigenous peoples? If so, would you provide those analyses to the Committee?

MR. MALPASS: Yes, we are monitoring the environmental performance of the MDBs. For example, we submitted a report to the Appropriations Committee in January 1988 documenting the progress of the banks in implementing U.S. legislation. We are currently preparing our analysis for an even more comprehensive review of environmental progress in the report required under this year's authorizing legislation. For specific information, I am submitting the Environmental Progress Report for the record. (Attachment).

PROGRESS REPORT ON IMPLEMENTATION OF ENVIRONMENTAL REFORM IN MULTILATERAL DEVELOPMENT BANKS

This report is submitted under the provisions of Section 539 of Public Law 99-591. This Section of the Public Law provides that the Secretary of the Treasury shall instruct the U.S. Executive Directors in each of the multilateral development banks to promote institutional commitment to a number of environmental reform measures.

The instructions provided for in the legislation have been issued to all U.S. Executive Directors in the multilateral development banks. The document quotes the relevant provisions of Public Law 99-951, followed by the corresponding progress reported on each of the development banks over the past year. In some cases, significant progress has been achieved on the specific provisions; in other cases, the banks have not moved effectively to meet some of the objectives that were established in the legislation. Continuing oversight of bank activities over the next year will be needed as well as continuing efforts to encourage improved performance in a number of areas.

1. Provision - Staffing and Staff Training

> "... vigorously promote a commitment of these institutions to add professionally trained staff with training and experience in ecology and related areas to undertake environmental review of projects, and strengthen existing staff exercising environmental responsibilities..."

Inter-American Development Bank

The Bank is offering a series of environmental seminars for members of its staff. The first of these seminars occurred December 1987. Forty members of the Bank's Project Analysis Department participated in presentations over a three-day period. Other such seminars will be held during 1988 with participants coming from other departments in the Bank. The Bank also co-sponsored a seminar with the Pan-American Health Organization on the impact of development projects on various aspects of health care.

A senior grade ecologist has been hired as a permanent member of the Bank's staff. He is serving as advisor to the Environmental Management Committee. An additional senior-grade specialist on environmental matters is expected to be hired in January, 1988. In addition, a natural resource economist was recently hired by the Bank's Department of Economic and Social Studies.

The Bank has also begun to place more emphasis on developing environmental expertise. For example, a recently-hired sanitary engineer in the Infrastructure Division of the Projects Analysis Department is qualified in water quality issues related to dams and impoundments. Treasury will continue to encourage recruitment of technical staff with training or background in ecological issues.

In May 1987, the Bank sponsored a "Consultive Meeting for Public Sector Agencies Responsible for the Protection and Conservation of Natural Resources". Participants and observers included Latin American public agencies, international and developing country non-governmental organizations and professional staff members from within the Bank. These participants and observers made several recommendations regarding environmental aspects of the Bank's lending activities. Three working groups were subsequently formed to analyze the recommendations within a specific timeframe and to make suggestions for the follow-up to the Environmental Management Committee. Treasury will monitor the efforts of the working groups.

Asian Development Bank

The Bank already employs staff consultants in the areas of sociology and anthropology. In addition, technical staff members have attended a number of informal presentations on the social and cultural issues related to development. A special consultant has been hired to make recommendations on the Bank's relationships with non-governmental organizations.

African Development Bank

The Bank has hired two technical assistants to work on environmental issues. These two positions are funded by the Nordic countries and have been added to the permanent cadre of Bank Staff. A third technical assistant is to be funded by the Agency for International Development. Japan and Italy have expressed interest in funding a fourth technical assistant position to increase further the Bank's coverage of environmental issues.

The Bank sponsored a one day seminar dealing with the economic valuation of environmental impacts and a two-day seminar in December on environmental planning in project development. The Environmental Division regularly sponsors informal presentations to Bank staff on environmental issues and policies.

World Bank

During 1987, the World Bank carried out a major reorganization of its management and staff. The objective of the reorganization was to increase efficiency and effectiveness and better focus on the Bank's personnel resources.

One of the primary aims was to strengthen the organizational capacity for addressing environmental concerns. With the reorganization essentially completed by September, a new Central Environmental Department had been established in the Policy Planning and Research Division under the Vice-President for Sector and Policy Research. Four environmental units were created in the Regional Technical Departments for Asia, Africa, Europe, the Middle East and North Africa, and for Latin America and the Carribean.

At the time of the reorganization, the Bank announced that about 48 staff positions would be allocated for environmental matters in various offices of the Bank. At the present time, forty-five of these positions have been authorized, 23 in the Central Environmental Department and 22 in the four regional units. In addition, funds have been authorized for the equivalent of 18 full-time consultants. The use of consultants is considered necessary to provide flexibility for changing environmental demands and concerns. It will also allow the Bank to tap a broad array of external expertise in various areas.

The technical expertise in the staffing of the regional environmental units include economists, ecologists, agriculturalists, forestry experts, sociologists, anthropologists, chemists, and urban planners. Under current budget constraints, no single division can cover the entire spectrum of disciplines required to carry out environmental work. Thus, each task will necessarily entail interdisciplinary and interdepartmental effort.

A training program for operational staff -- both Sector and Country and Operational staff -- is being introduced. The program is designed to raise awareness of environmental issues in development, to convey new techniques and to introduce the latest developments in the field. In addition to this particular program, the integration of environmental and economic work and the importance of policy intervention will be included in a number of Economic Development Institute courses and seminars each year.

Since September 1987, seminars have been given on environmental issues in China; the environment and general planning; effective management and use of environmental information; a panel review on agroforestry; environmental problems in Turkey; and agronomics and its application in the transfer of technology to developing counries.

2. Provision - Management Plans Line Unit

> "... develop and implement management plans to ensure systematic and thorough environmental review projects and activities affecting the ecology and natural resources of borrowing countries, including - creation of a line unit to carry out such review as part of the normal project cycle..."

Inter-American Development Bank

Instead of establishing a line unit, the Inter-American Development Bank has chosen to create an Interdepartmental Committee. This Committee has responsibility for reviewing projects for possible adverse environmental consequences. It reviews projects in both the preparation and implementation phases. It is advised by a senior environmental specialist and, shortly, will recruit a second environmental specialist to become a permanent member of the Bank staff.

Asian Development Bank

The Asian Development Bank has established a line unit for the environment. This unit reports to the Vice-President for Projects through the Director, of the Infrastructure Division. The Bank plans to establish a Division of Environment in 1988. This upgrade should enhance environmental planning and management functions. The U.S. Executive Director will continue to support the creation of an Environmental Division with appropriate staffing.

African Development Bank

In its reorganization of March 1987, the African Development Bank created an environment division within the Department of Central Projects. Previously there was only one-person responsible for coordination of environmental issues. This increase in staffing is expected to improve the standing of the environmental experts within the Bank although the division will need to grow in order to promote adequate coverage of environmental issues and actions at the Bank.

The new division is now in the process of developing new environmental guidelines to be issued within the next six months. In addition, the division is developing an Early Warning System to inform other specialists of problems with projects in the pipeline as early as one year in advance of board consideration.

World Bank

The reorganization of 1987, resulted in the creation of an environmental unit in the technical departments in each of the four regions.

3. Provision - Management Plan - Advisor to President

> "... appointment of an environmental advisor to the Presidents of the Multilateral Development Banks (MDB)..."

None of the Banks has yet appointed an advisor to the President for environmental matters. However, all of the Banks have created senior-level environmental positions with individuals who have access to decision-makers within the institutions. In the World Bank a member of the President's personal staff now monitors environmental matters.

4. Provision - Management Plan - Project Monitoring

> "... institution of a regular program of monitoring all on-going projects to ensure policies to protect the environment and indigenous peoples are fully complied with..."

Inter-American Development Bank

Specific instructions have now been issued to field offices to emphasize a series of environmental and socio-cultural issues during project supervsion and monitoring visits. In a recently approved loan for Bolivia, the environmental advisor at the Bank's headquarters will be sent periodic reports related to environmental conditions stipulated in the loan documents.

Asian Development Bank

In the Asian Development Bank, this function is supported by specially-designed environmental review procedures operating through-out the entire project cycle. These procedures, involve the use of screening methods, environmental guidelines, and a computerized reporting system. More detailed information is needed on the use of these procedures to assess their effectiveness.

African Development Bank

The African Development Bank has taken several steps to improve monitoring and evaluation. For the most part, this seems to have been done on the basis of individual projects. The 1987 Ambiara Irrigation Project in Ethiopia is cited as one example where specific recommendations were made for sustainable management of the newly appraised Amibara Drainage Project. Undoubtedly, more work will need to be done to promote a more systematic approach to this issue. To that end, the U.S. Director will continue to urge strengthening, monitoring and evaluation capabilities, both in-house and through the use of outside consultants.

World Bank

Project review is one of the main functions that has been assigned to the four regional environmental units. Relevant documentation at all stages of the project cycle will be reviewed by the appropriate expert in the unit. The Country Department and Sector Operations will be alerted to the need for measures to avoid or remedy negative environmental consequences.

5. Provision Career Incentives

> "... create career and other institutional incentives for all professionally trained bank staff to incorporate environmental and natural resources concerns..."

Inter-American Development Bank

The Bank has not created any specific career incentives in recognition of improved environmental analysis. However, it has begun to offer recognition to key contributors to the work of the Environmental Management Committee. For example, the environmental advisor to the committee is being sent to international environmental meetings. Recently, the chief environmental consultant was given a permanent staff position. The issue needs continuing attention during the upcoming year.

Asian Development Bank

The Bank reports no plans to offer specific career incentives for improved environmental performance. The issue will receive additional attention during the upcoming year.

African Development Bank

The Bank reports that no resources are available within current budgetary constraints for offering special incentives for environmental activities. Additional efforts will be made to focus attention on this issue during the upcoming year.

World Bank

Following the reorganization, the Bank introduced a policy that appears to offer technical staff a professional career ladder similar to that previously designated only for managers. This policy could provide a stronger impetus for efforts to attract environmental experts from many of the Bank's borrowing countries.

6. Provision - Environmental and Health Ministers

> " .... vigorously promote changes in these institutions in their preparation projects and country programs that will prompt staff and encourage borrower countries (a) actively and regularly involve environmental and health ministers, or comparable representatives, at the national regional and local level, in the preparation of environmentally sensitive projects and in the bank-supported country program planning and strategy sessions..."

Inter-American Development Bank

As part of its effort to review and strengthen procedures for incorporating environmental consultation into the project cycle, the Bank hosted a three-day consultive meeting in May 1987. Participants included public entities involved in project planning, development, and environmental protection in the Bank's borrowing countries. Non-Government Organizations in the Bank's member countries also attended the meeting. One result of the meeting was the development of an environmental work plan. The implementation of this plan is being monitored.

Asian Development Bank

Each year the Bank issues a document entitled "Briefing Profiles for Country Programming Missions: Environmental an Natural Resources Development Projects in Selected Developing Member Countries". In addition, a letter is sent to the Bank's official contact points and relevant environmental agencies regarding pipeline projects which the Bank's environmental unit believes require some form of environmental assessment.

African Development Bank

Bank management has issued staff a directive to consult with environmental and health ministers. This procedure should be reinforced by the early warning information system which will be used to alert the environmental division to issues requiring consultation.

World Bank

Bank staff are required to consult with government agencies and other organizations that have expertise relevant to project preparation. It is believed that increased attention to health and environmental issues will result in more extensive consultation with Environmental and Health Ministers.

7) Provision - Non-Governmental Organizations

> "... actively and regularly seek the participation of non-governmental indigenous peoples and conservation organizations in the host countries at all stages of project planning and strategy sessions..."

Inter-American Development Bank

Non-Governmental Organizations from both borrowing and non-borrowing countries participated in a May seminar on the environment. Bank management worked with U.S. organizations to promote participation by Latin American Environmental Organizations. The Bank is currently considering a number of recommendations that arose out of the May meetings, to ensure local non-governmental organizational involvement early in the project preparation cycle. This is an area which requires much improvement, and Treasury will monitor Bank efforts to work with Non-Government Organizations.

Asian Development Bank

The Bank's Board of Directors has approved a working paper entitled "The Banks Cooperation with Non-Government Organizations", which endorses the use of local NGOs in borrower countries. The Bank anticipates that a final report, prepared in consultation with a consortium of NGOs, will more fully document procedures for cooperating with environmental NGOs.

African Development Bank

In order to improve the exchange of information on programs of common interest, guidelines for operational missions now require that staff contact representatives of bilateral, multilateral, and Non-Governmental

Organizations who have shown an interest in environmental issues.

The Bank also expects to benefit from the establishment of an African NGO Environmental Network (ANEN), which has established contact with some 300 different organizations in a majority of African countries. This is an area which requires much improvement, and Treasury will monitor Bank efforts to work with Non-Government Organizations.

World Bank

The Bank's reorganization has shifted the focal point for Bank-NGO relations from the External Affairs Vice-Presidency to the new Strategic Planning and Review Department in the Policy, Planning, and Research Complex. Although actual involvement of NGO's in Bank operations still remains the exception rather than the rule, it is clearly increasing. The Bank's forthcomming Fifth Progress Report Cooperation Between the NGOs and the World Bank indicates that 22 of the Bank's projects (either ongoing, or under preparation) involved some form of Bank-NGO cooperation.

8. Provision - Local Communities

> "... to fully inform communities and appropriate Non-Governmental Organizations with an interest in local development projects of all project planning sufficiently in advance of project appraisal to allow informed participation of local communities and non-governmental organizations that may be adversely affected by them..."

Inter-American Development Bank

The Bank's field offices are being instructed on the need for briefing of key NGOs and local community representatives on Bank activities under active consideration as well as on projects currently being implemented. A one week seminar is to be held in January for all IDB field officers. One and a half days have been allocated for briefings on environmental and sociocultural issues, including relations with local communities and NGOs.

Asian Development Bank

The Bank's management has recently issued a memorandum directing project staff to identify and assess potential socio-cultural issues likely to be generated by projects and to adopt necessary mitigation measures. A document entitled "Guidelines for Assessing Socio-Cultural Impacts of Economic Development Projects" has been distributed for use by project staff.

African Development Bank

Terms of reference for Bank consultants include instructions to consult local communities when this is considered an appropriate step. The Bank's management has acknowledged that this is an area which requires more attention and the issue will be promoted during the course of next year.

World Bank

The Bank is making greater efforts to work with local communities in some sectors. In agriculture, many Bank-financed projects have included special provisions that involve farmers' organizations. Bank financed water irrigation projects often promote the formation of Water Users' Associations, which take over functions that commonly fall to government agencies. In Kenya, the Bank enhanced the effectiveness of an already successful agricultural extension service by linking extension agents to some of Kenya's 10,000 women's groups. The groups spread technical knowledge among women farmers and also involved poorer women who might be reluctant to meet with extension agents themselves. It is believed that these types of activities can provide a model for participation of local groups in various parts of the project cycle.

9. Provision - Multidisciplinary Planning

> "... established a regular integrated multidiciplinary planning process to conduct land use capability analyses in reviewing potential loans; such plans shall include, but not be limited to, a review of ongoing or other potential resource utilization efforts in and adjacent to the project area..."

Inter-American Development Bank

The Bank has already incorporated land use planning and remote sensing techniques into some of its projects. One recent example is a regional technical cooperation grant to strengthen a regional training center in the collection, analysis, and interpretation of remote sensing of natural resource data and the development of geographic information systems.

Land use analysis has become a basic issue for environmental review if any conversion of land is to occur as a result of a project. Treasury will continue to monitor the implementation of land use planning in project preparation.

Asian Development Bank

The Bank indicated that it supported multidiciplinary planning in the project development cycle. Examples cited include the Han River Environmental Master Plan in Korea, the Songkha Lake Environmental Improvement in Malaysia, and the Samutprakarn Industrial Pollution Control and Management Project in Thailand. As noted the Bank has also distributed a document entitled, "Guidelines for Regional Environmental Development Planning", which incorporates multidisciplinary planning into the project development cycle.

African Development Bank

The Bank is exploring ways in which it can help to increase land use assessment capability through the use of remote sensing data. Contact has been made with the World Bank and the European Economic Community for assistance in this area.

World Bank

The World Bank has a three-pronged approach to establish a multidisciplinary planning process for land use capability. First, it has initiated preparation of comprehensive environmental action plans in selected countries using a multi-disciplinary planning process to land use planning and strategies on a national basis. Secondly, it is making use of a range of capabilities, both in-house and through the use of consultants, to bring to bear technological capabilities, where relevant, in the land use planning process. These capabilities include remote sensing, satellite imagery and aerial photography. In addition, the Bank is using a number of well developed mathematical models to assist in this effort. Thirdly, terms of reference for consultants are being prepared in order to identify areas where multidisciplinary support will contribute to improving project preparation.

10. Provision - Ecological Resource Rehabilitation and Management

> "... vigorously promote a commitment of these institutions to develop and implement plans for the rehabilitation and management of the ecological resources of borrower nations in a sustained basis. Special attention shall be paid to soil conservation, wildlife, wetlands, estuaries, crop land, grasslands, forests and fisheries, including long term programs of research designed to manage eco-systems..."

Inter-American Development Bank

The Bank has supported research into ecosystem management through its financing of national and international agricultural research centers and through national science and technology programs. The Bank has provided financial support for such research programs at the University of Panama; agricultural research programs in Chile, and the environmental dimension of the agricultural research program for South Central Brazil.

Asian Development Bank

The Bank is now exploring the role of various information systems in natural resource planning and management.

African Development Bank

The Bank is in the process of preparing a new and more comprehensive environmental policy to be finalized in early 1988. The U.S. has been involved in writing the terms of reference for the consultants who are preparing this policy statement. Of special interest is the provision that the consultants examine the Bank's potential role in the conservation of unique habitats and wildlands". The final paper will be presented to the Board of Directors in 1988.

More emphasis is also being placed on sustainable agriculture. For example, the South East Rangeland Development Project in Ethiopia is expected to improve productivity of pastoral systems through better management of rangeland resources (water and land) in a semi-arid region susceptible to desertification. The project also encompasses a wildlife sanctuary (6000sq. km) in which a residual population of elephants will be maintained. The Bank has also provided support for research institutions such as the International Livestock Center for Africa and the Institute for Tropical Agriculture.

World Bank

Bank staff have been sent for training and to participate in state-of the art technology conferences and workshops to bring into the Bank the latest advances in wasteland reclamation. Based on research initiated within the Bank, work is also expected to begin in the next fiscal year on a pilot project in India to reclaim wastelands. On the issue of proper management of ecosystems, the Bank has become part of a joint effort with Harvard University and the Institute for International Environmental and Development (IIED) to assess alternative institutional approaches to natural resource management. The program also seeks to develop methodologies and guidelines designed specifically to deal with management issues related to natural resources. Finally, five task forces have been set-up within the Bank to address environmental concerns. These task forces are focussing on desertification, industrial accident risk avoidance, deforestation, protection of critical ecosystems with special references to biological diversity and mitigation of natural disasters in urban areas.

11. Provision Local Staff Resources for Project Implementation

> "... provision of adequate extension workers, park rangers, social forestry experts, and other appropriate..."

Inter-American Development Bank

The Bank is supporting the strengthening of local staff resources during project implementation. For example, in the second Ecuador Road Improvement Program a component costing approximately U.S. $1,000,000 was approved to undertake protection activities and to improve the operational effectiveness of units responsible for natural resource conservation. A similar component of the same amount was included in a road improvement loan for Minas Gerais in Brazil.

Asian Development Bank

Three seminars dealing with this subject were held in the Bank's borrowing member countries between 1986 and 1987. The Bank as a matter of policy is to support institutional strengthening of the environmental and line agencies dealing with environmental issues. No specific projects were cited as examples of Bank support in this area.

African Development Bank

Improving local staff resources is reported to be constrained by budgetary limitations. However, within these limitations, the Bank has taken steps to strengthen game range units to protect wildlife in the Zamba Rural Development Project in Malawi, which includes both forest and game preserves. In addition, the mid-Zambezi Valley Rural Development Project in Zimbabwe is planned to strengthen the wildlife and natural resource management in the project area.

World Bank

Expanded efforts are underway to increase local staff resources for environmental work. These efforts are reflected in the increased emphasis on sector adjustment loans (SALs), which have included improved environmental management as a component. For example, a technical assistance credit to Haiti included reduced soil erosion as a major justification for a reduction in the export tax on coffee. Generally, the bulk of implementation work on environmental issues is performed by local staff who execute the conditionalities attached to loans. In sector loans to Mexico, Brazil, Columbia, and Korea, increased attention is to be given to conditionality concerning resettlement of affected populations in power project areas, staffing and equipping of environmental protection agencies, and in the use and protection of wetland areas.

12. Provision - Training for Environmental Science and Land Use Planning

> "... improved programs of training in environmental science and land use planning..."

Inter-American Development Bank

The Bank has cited two examples of improved training programs. In a primary education project in Ecuador, a highly successful local environmental group has contributed to a new basic science textbook and to the environmental training of school teachers. A recent agricultural vocational education loan to Paraguay provided for curriculum strengthening natural resource management subjects and practical techniques such as the appropriate use of pesticides.

Asian Development Bank

Training has received more attention from the Asian Development Bank during the past year. For example, a Marine Science Education Project in Indonesia included a program on marine ecology and enviornmental technology and management. The project will also quantify the need for graduates in the environmental sciences (particularly pollution, toxicology, and marine ecosystems). The Bank is conducting a review of the education sector in order to include environmental components in future programs and projects. One educational program, the Manpower Education and Training Project in Indonesia, involved a course on environmental impact assessment; using environmental experts as staff and teaching consultants.

African Development Bank

The Bank has provided training in land-use management in the South-East Rangelands Project in Ethiopia. The project included establishment of a department for rangeland management at the local agricultural college. To date, the Bank has not put special emphasis on the incorporation of training in land use planning and environmental science in institutions of higher education. Additional attention will be neeeded in this area in the coming year.

World Bank

In its Economic Development Institute, the Bank has been conducting seminars in water resources and water quality management for domestic consumption and on the management of land and water ecosystems for sustained agricultural development. Several regional training seminars are planned for 1988.

13. Provision - Environmentally Beneficial Projects

> "... vigorously promote a commitment of these institutions to increase the proportion of their programs supporting environmentally beneficial projects and project components, such as technical assistance for environmental ministries and institutions, resource rehabilitation projects and project components, protection of indigenous peoples, and appropriate light capital technology projects. Other examples of such projects include small scale mixed farming and multiple cropping, agroforestry, programs to promote kitchen gardens, watershed management, and rehabilitation, high yield wood lots, integrated pest management systems, under stabilization programs, programs to improve energy efficiency, energy efficient technologies such as small scale hydro-projects, rural solar energy systems, and rural and mobile telecommunications systems, and improved efficiency and management of irrigation system..."

Inter-American Development Bank

The Bank's management has cited soil conservation, watershed management, water supply and sanitation projects as examples of projects that have been supported by the Bank on an ongoing basis. Continued monitoring is necessary to ensure that these components are implemented in accordance with specific loan provisions.

Asian Development Bank

The Bank indicates that it has supported environmentally beneficial projects, such as reforestation, soil conservation, etc. Continued monitoring is necessary to ensure that the Bank places an increasing emphasis on this area.

African Development Bank

The Bank reports that it has financed a number of projects which have environmentally sound components. This includes irrigation projects with anti-flooding controls and livestock projects that seek to deter overgrazing. The Bank has expressed interest in financing projects such as small scale agriculture, forest management and anti-desertification programs, multidisciplinary research to improve productivity and natural resource management of small scale agriculture and pastoralists, and programs to reduce population pressures. The food and agriculture organization has a contract to identify projects and do feasibility studies based on the Tropical Forestry Action Plan.

14. Provision - Energy Efficiency Lending

> "... place an increased emphasis on upgrading the efficient use of energy and other resources by borrowing nations. Such efforts shall include, but not limited to (A) significantly increasing the proportion of energy project lending for energy efficiency improvements, and decentralized small-scale facilities such as solar, wind or bio-mass generating facilities; and ..."

Inter-American Development Bank

The IDB indicates that it has financed improvements in electricity transmission and distribution networks with an emphasis on increasing efficiency of facilities already in operation. Some distribution networks have been rehabilitated for the purpose of conserving energy.

Asian Development Bank

In 1987 the Bank reports that it funded a project in Korea which will utilize waste heat from a power generating plant. A technical assistance project is also underway in the Peoples Republic of China to do a feasibility study of investment in energy conservation.

African Development Bank

The Bank indicates it has introduced a number of technologies that improve energy conservation. For example, improved stoves for smoking fish will be used in a fisheries project in Ecuatorial Guinea. Some possibilities exist for directing the Bank's attention to the use of alternative energy sources. For example, the Biomass Users Network, a U.S. Non-Governmental Organization is seeking the Bank's participation in a pilot program to foster use of biomass in several African countries.

World Bank

It appears that the Bank has not significantly increased the proportion of energy efficiency lending. In discussions with Treasury staff, the Bank has indicated willingness to incorporate conservation into energy lending. To date, the Bank appears to have taken only a few concrete actions to implement such programs.

15. Provision - Compare Energy Generation/Energy Conservation

> "... conducting an analysis of the comparative costs of any new energy generating facilities with the cost of increasing the energy efficiency in the project service area..."

Inter-American Development Bank

The Bank has issued a statement emphasing its commitment to continue to give careful analysis to energy alternatives. The Bank has financed studies and projects in energy conservation; however no projects has been financed which incorporate conservation into the mix of energy development plans analyzed by the Bank.

Asian Development Bank

The Bank's indicates that it has provided assistance for decentralized energy supply development, including direct assistance to social forestry projects and assistance for biogas plants. Assistance has also been provided for decentralized energy supplies at a large number of locations in Indonesia.

African Development Bank

The Bank regularly finances power generation and rehabilitation projects. The potential for discussing the inclusion of energy efficiency investments should be emphasized in developing future lending programs.

World Bank

The Bank has not moved effectively in the area of energy conservation. Treasury will continue to urge that this be incorporated in upcoming loans.

16. Provision - Wetlands

> "... seek a commitment of these institutions to fund projects to protect and preserve crucial wetland systems and to avoid expenditures for projects designed to convert major wetland systems. Development proposals which may affect these areas should be the subject of detailed impact assessments so as to avoid detrimental impacts to fisheries, wildlife, and other important resources..."

Inter-American Development Bank

A wetlands guidelines paper is under preparation within the U.S. Government for distribution to the Bank. It is being prepared with the cooperation of non-governmental organizations. The Bank also has its own environmental guidelines paper.

Asian Development Bank

Guidelines for initial environmental examination of coastal area development projects have been prepared; detailed guidelines, now under preparation, will include explicit attention to wetlands. The U.S. Government guidelines paper will be provided.

African Development Bank

A wetlands guidelines paper is under preparation within the U.S. Government for distribution to the Bank. Bank management believes that the state of knowledge is far from that required to plan projects in this area. However, Treasury will urge the Bank to provide indirect help by its sponsorship of research institutions and conservation planning in the borrowing countries.

World Bank

The Bank is awaiting the presentation of the wetlands guidelines being prepared by the U.S. Government. In recent years, wetlands development projects usually contained an environmental impact assessment.

17. Provision - Economic Development Institute

> "... vigorously promote the establishment within the Economic Institute of the World Bank of a component which provides training in environmental and natural resource planning and program development..."

World Bank

The Bank has a unit within the Economic Development Institute on environmental and natural resource planning and program development. Two seminars for managers for agricultural land and water ecosystems have taken place. One of these was for selected countries from all four Regions of the Bank, and the second was sponsored jointly with the United Nations Environmental Program for all Eastern and Southern African countries. The African seminar focussed on management and natural habitats.

Joint efforts with regional training institutions are also planned. This planning includes one seminar for Asian countries to be held in the Philippines in 1988, and a second seminar to be held in Costa Rica in September, to focus on Latin America. The Bank has been conducting seminars in water resources and water quality management for domestic consumption and on the management of land and water ecosystems for sustainable agricultural development. A seminar on water quality management is planned for early 1988 in Jordan for Middle Eastern countries, and workshop on training in the provision of safe water for domestic use in English speaking African countries. The African workshop will be held in Kenya in March 1988.

The Economic Development Institute has contracted with a consultant for a systematic review of environmentally-related documentation and systems and training materials. This material will be suitable for both training Bank staff and for incorporation into the curricula of the institute and other training institutions.

SENATOR KASTEN: Has Treasury analyzed the economic models being used by the MDBs to justify projects to see whether these models take into account the long-term value of properly protecting and conserving natural resources on the one hand, and long-term costs of not doing so? Aren't the models that have been used for the last decade obsolete, and won't they almost always lead to wrong investment decisions? For example, on the Carajas Pigiron project in Brazil, the trees being destroyed by the project are not even valued at one dollar apiece. If they are valued at just one dollar, wouldn't the rate of return calculation be negative? What is Treasury doing to see that these obsolete economic models are phased out and replaced?

MR. MALPASS: Our review of projects indicates that the Banks have now begun to regularly employ economic modeling which reflects long-term environmental concerns. For example, a recent African Development Bank project in Guinea-Bissau contained a hydrological model to ensure sustainable water use. A World Bank forestry and conservation project in Indonesia contained an economic rate of return forecast for a watershed management component. An Inter-American Development Bank proposal for Ecuador, currently in the preparation stage, addresses the problem of the lack of environmental data in developing countries. This project includes a provision for the analysis and monitoring of a land management component in order to generate data on economic cost and benefits.

One of the problems in applying economic methodology to the environment is that traditional discounting methods do not adequately incorporate environmental impact in the long-term future. This problem is beginning to be addressed in the MDBs. The Inter-American Development is conducting research on methods to measure environmental costs and benefits. One of the functions of the new Environmental Department at the World Bank will be to do state-of-the-art resrarch on measuring environmental costs and benefits.

SENATOR KASTEN: Regarding the Asian Development Bank, will Treasury support a request on the part of Asian Development Bank to hire more environmental and sociocultural specialists and economists trained in natural resources? Will the U.S. take a lead role in advocating this staff increase?

(Our information is that only 3 of the roughly 600 professional staff at the ADB are environmental specialists, and that the ADB would welcome an increase of at least six experts in that office, including a natural resource economist, an anthropologist, a sociologist, a soil conservation expert, a hydrologist, and another ecologist.)

MR. MALPASS: At the Annual Meeting of the Asian Development Bank, the United States formally called for the addition of environmental staff in the areas of anthropology, critical habitats, and watershed management. We will be working with other Board members and management to find ways and resources to implement the U.S. proposal.

SENATOR KASTEN: What specifically has Treasury and the State Department done to work with other members of the regional MDBs regarding implementation of the reforms contained in the Committee's directives?

What else can the United States do to improve the environmental performance of the regional MDBs?

MR. MALPASS: International cooperation with other members of the regional MDBs is essential to the implementation of environmental reforms at the MDBs. Towards this end we have undertaken a variety of measures including diplomatic initiatives. The U.S. Executive Directors have been instructed to obtain the views and comments of other donor countries on the provision of additional resources for strengthening the environmental capacity of the regional MDBs. Our efforts have produced supportive comments from several countries. Our next step is to work cooperatively to implement our proposal for additional environmental resources. We also, routinely, provide copies of the Early Project Notification list to other Executive Directors and encourage them to participate in the discussion of these projects with management of the regional banks.

IDB'S ENVIRONMENTAL WORK PLAN

SENATOR KASTEN: A great deal of attention has been focused on the nine-point environmental work plan of the IDB, and the activities of the three current working groups on environmental issues. How would you assess the progress of these working groups?

MR. MALPASS: The nine-point environmental work plan of the IDB has the potential to improve the scope and focus of project lending, resulting in a project preparation process which more fully takes into account environmental costs and benefits. The draft reports from the three current working groups set up under the program are being reviewed on an interdepartmental basis and have not been publicly distributed. However, the environmental content objectives have been defined for country programming exercises and are currently addressed in these documents. Draft terms of reference have been prepared for an environmental study of Uraguay to be partly financed by IDB and Uraguayan government authorities. An institutional analysis of environmental institutions in Latin America is also about to be distributed around the Bank for comment. While the work of the nine-point program is promising, the USG will monitor progress to ensure that worthwhile recommendations and policies emanating from the working groups are given full consideration by Bank management.

SENATOR KASTEN: During this year's annual meeting in Caracas, Venezuela, the Government of Japan announced its intention to fund a new lending facility at the IDB. Would loans made through this new facility be covered by the same environmental and social policies that guide current bank lending?

MR. MALPASS: Yes, any loans made through this facility would be governed by the same environmental and social policies which currently guide bank lending.

SENATOR KASTEN: What diplomatic efforts has the U.S. Department of the Treasury made to increase support for environmental reform amoung other donor members of the Bank? Among borrowing countries? What efforts have been made by countries other than the United States in support of environmental reform at the IDB?

MR. MALPASS: As with the other MDBs, our approach is to work with Bank management and other donor nations in order to bring about the internal reforms necessary to continue the progress on environmental issues. This includes cables to donor capitals and other Executive Directors explaining our legislation and seeking support for increased financial resources for environmental staffing at the regional MDBs. Other countries, including the British and the West Germans, will attend an envionmental committee meeting of the OECD in Paris to discuss adoption of a uniform set of environmental guidelines for voting in the MDBs. We see this as a significant example of donor cooperation at the IDB as well as the other MDBs. The U.S. delegation proposed the guidelines and will take the lead in asking for their adoption by OECD countries who contribute to the MDBs.

IDB POLICY-BASED LENDING and the ENVIRONMENT

SENATOR KASTEN: The U.S. Government, during the recent Annual Meeting in Caracas, repeated its hope that the IDB will, after substantive internal reform, engage in policy-based lending in the future. What steps has the U.S. taken to ensure that the Bank will be capable of considering natural resource concerns as part of this new type of lending? Specifically, what loans made by the IDB over the past year can be considered, in accordance with last year's appropriations language, "environmentally beneficial"?

MR. MALPASS: To ensure that the Bank will incorporate natural resource concerns into policy-based lending, the USG will be following closely the progress of the nine-point environmental program announced last year. Among other things, this program calls for the incorporation of environmental concerns into the programming process and support for institutional strengthening in Latin America. The USG fully supports the goals and objectives of this multi-faceted work program and will seek to ensure the implementation of its policies and recommendations, should these be as sound as expected. Clearly, one good indication of some positive efforts to improve environmental performance is the environmental design of projects which have recently come up for review: a reforestation loan to Ecuador in 1987 for $6.3 million; a strong environmental component in a Suriname technical cooperation project for the rehabilitation of drainage and irrigation systems; environmental components in a Bolivian road rehabilitation loan; and two loans to Brazil totaling $100 milion to improve and expand the water supply and sewerage system of Brasilia. Many loans not directly related to an environmental objective may have a beneficial environmental component. Measuring the increase of such components is not always feasible due to the different types of projects and cost differentials which do not reflect impact on people. For example, construction of wells and the promotion of health training are relatively low cost ways to have a significant effect on the health of a poor community. The USG will seek to ensure that loans have environmentally beneficial components.

SENATOR KASTEN: In Assistant Secretary Mulford's speech at the IDB Annual Meeting, reference is made to the need for a new Environmental Department at the IDB, possibly within the Project Analysis Division. Could you eleborate on this section of Assistant Secretary Mulford's speech?

MR. MALPASS: Yes. As Assistant Secretary Mulford has indicated, we believe that the IDB should have a central environmental unit. The principal function of the unit would be the review of environmental aspects of the Bank's loans. Such a review would require additional staff with environmental expertise in a number of areas and the ability to participate effectively in the loan appraisal and implementation process. In our view, the unit would also serve as a focal point for the Bank's environmental activities and as a source of information and knowledge about environmental issues that would be available to other offices in the Bank.

EARLY WARNING SYSTEM

SENATOR KASTEN: Have the U.S. Executive Directors to the regional Banks held seminars for the other executive directors and bank staff on the AID Early Warning System? The Foreign Operations Bill requires AID (operator of the Early Warning System) to work with Treasury to: "Create a cooperative mechanism for sharing information collected through the early warning system with interested donor and borrower nations and encourage the MDBs to institute a similar system."

MR. MALPASS: The U.S. Executive Directors at the regional banks regularly distribute the list to other Executive Directors at the banks. This list serves as the basis for on-going follow-up of bank projects by the U.S. Government. In addition, joint meetings with other Executive Directors and World Bank staff have been held to discuss concerns related to specific projects on the list. In a June 1988 meeting of the OECD in Paris, Treasury and AID staff did a presentation to other donors on the Early Warning System and other facets of our efforts to ensure that sustainable development is a major focus of the Banks. Treasury staff recently held an informal discussion with the Executive Directors of other donor nations at the IDB to review possibilities for cooperatively working to strengthen the environmental staff at the Bank. We see international cooperation among the major shareholders of the Banks as the only way to initiate long term institutional changes in the Banks. The changes we seek are designed to improve environmental performance in the long run, and anything less than a long term effort at institutional change could result in mere window dressing.

THE IDB'S ENVIRONMENTAL MANAGEMENT COMMITTEE

SENATOR KASTEN: The IDB has asserted repeatedly that its Environmental Management Committee is an adequate mechanism for review of IDB projects. Yet most of the staff of this committee consist of high level managers whose time is already overcommitted. The Environmental Progress Report that the Environmental Management Committee submitted to Treasury and Congress in 1986 cited a micro-drainage project in the city of San Paulo, Brazil as a model environmental project. This project was subsequently strongly opposed by Brazilian and US environmental groups. The IDB has now taken action after your pressing for reforming this project. In light of these facts, does the Treasury Department seriously believe that the Environmental Management Committee is an effective or adequate review mechanism? Last year this Committee only reviewed 16 projects out of all those approved by the IDB. Is such a monitoring program working? What is needed to make it work? What is the U.S. Executive Director doing to assure that these changes are made?

MR. MALPASS: The Environmental Management Committee (CMA), created in 1983, is the primary environmental review mechanism in the Bank. This permanent committee consists of the managers of Project Analysis, Operations, Plans and Programs, Economic and Social Development, and Legal departments and the Advisor of the External Relations Office. The purpose of the committee is to review the environmental aspects of projects with significant ecological effects early in the project cycle. We believe that the Bank's Environmental Management Committee has performed a very useful function in focusing greater attention on environmental issues. However, our view is that the Bank's environmental work now needs to be centralized in a unit that can concentrate on loan approval and implemental issues and serve as a focal point for all of the Bank's activities in this area. The Sao Paulo project referred to in your question was approved in 1986 and subsequently underwent design changes as a result of pressures brought to bear by environmental groups. The USG feels that the committee's responsiveness to the environmental problems raised by the Sao Paulo small drainage project is a sign of improved awareness of environmental issues at the IDB. However, it appears that environmental review may be better served, and environmental analysis subsequently improved, by the addition of internal advisors within Project Analysis who possess a broad ecologial background and environmental sciences training. We have already indicated our concern that the IDB add appropriately trained environmental staff in a central department, as well as environmental staff in other important areas of the Bank's activities. Our concerns have the Bank such as Plans and Programs. Our concerns have also been expressed in regular policy discussions with other Executive Directors and with Bank management. So far the Bank has responded by adding an environmentalist to the staff in Washington and a tropical forestry specialist in the regional office in Brazil. The Bank also has several technical staff trained in environmentally related disciplines such as soil specialists and foresters. Though we recognize the efforts of the Bank in the area of environmental staffing, we believe that a need still remains for the creation of an environmental unit and the hiring of additional environmental staff.

ACRE ROAD PROJECT

SENATOR KASTEN: Is there any real threat that the Brazilians will pull out of this loan? Are there alternate funding sources available? My concern is to maximize our leverage. We want the IDB to insist on the environmental provisions contained in the loan. Our beef is not with the Brazilians, but with the IDB to enforce those environmental provisions.

MR MALPASS: The Brazilians have approached the Bank and wish to continue discussions on this loan with a view to reaching a satisfactory agreement so that IDB disbursements can be resumed.

IDB ENVIRONMENTAL POLICIES

SENATOR KASTEN: The IDB still has no official policies on protection of wild lands or indigenous people like the World Bank does. The IDB also has no formal policy on involvement of NGOs. What is the U.S. Executive Director doing to correct these shortfallings?

MR. MALPASS: The IDB working group on NGO involvement has yet to formulate a policy on NGOs. However, the working group has been meeting with Washington-based NGOs and we expect a recommendation soon that will address the issue of Bank-NGO relations. Our concerns in the area of environment are well known to Bank management. We fully support the Bank's proposed Forestry policy paper due to its improved environmental provisions such as protection of the land rights of indigenous people, community participation and conservation and research. Most promising is the appointment of the new IDB President, who has made a clear commitment to cooperating with NGOs. We look forward to working with him to ensure that attention to environmental concerns and NGO participation move beyond the phase of stated commitment to the goal of improved performance.

FOREST AND RANGE PROTECTION

SENATOR KASTEN: I understand that Secretary Baker has promised to issue instructions to the U.S. Executive Directors to each MDB to prevent harm to tropical forest ecosystems from projects. I also understand those instructions, which are to be modeled on similar instructions signed by the Secretary in August 1986 concerning livestock projects, have been stalled within the Treasury Department for several months.

What is their current status and when will they be promulgated?

MR MALPASS: We are pleased to announce that the tropical forest standards were issued at the end of April and are currently in force for all voting decisions related to tropical moist forestry.

SUBCOMMITTEE RECESS

Senator KASTEN. Thank you for your remarks and your testimony.

The subcommittee will now stand in recess until 10 o'clock Thursday, April 14, when it will receive testimony from the Honorable Richard S. Williamson, Assistant Secretary of State for International Organization Affairs, and the Honorable Richard S. Bissell, Assistant Administrator for Program and Policy Coordination at the Agency for International Development.

We thank you.

[Whereupon, at 11 a.m., Tuesday, April 12, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, April 14.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1989

THURSDAY, APRIL 14, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m. in room S–126, the Capitol, Hon. Daniel K. Inouye (chairman) presiding.

Present: Senators Inouye, Kasten, Specter, and Nickles.

DEPARTMENT OF STATE

INTERNATIONAL ORGANIZATION AFFAIRS

STATEMENT OF HON. DENNIS GOODMAN, DEPUTY ASSISTANT SECRETARY, OFFICE OF THE SENIOR DEPUTY ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL ORGANIZATION AFFAIRS

OPENING REMARKS OF SENATOR INOUYE

Senator INOUYE. This morning we continue our examination of the President's request for fiscal year 1989 funding of foreign assistance and related programs, and today we will receive testimony in support of funding requests for U.S. voluntary contributions to various international organizations and programs. These contributions are made to the voluntary programs of the U.N. and other organizations and are distinct from the so-called assessed contributions which follow from U.S. commitments governing participation in the United Nations.

This committee remains concerned that the pressures imposed on our own national budget may have dire consequences on the future of those international organizations which depend heavily on American voluntary contributions. As the problems of health, food, child survival and environment assume ever greater proportions, and the demands placed on the industrialized world outstrip the available resources, it becomes increasingly imperative that countries join together out of a sense or common urgency. This is why the work we are doing here today is so important.

This committee believes in the fundamental soundness of multilateral programs in the U.N. system and has provided generous funding for international organizations and programs, while also seeking to improve their effectiveness.

Judging from the sharp reductions proposed by the administration this year, it appears that once again this subcommittee will have to come to the rescue of these organization so that both they and U.S. foreign policy interests around the globe may remain on a sound footing.

INTRODUCTION OF WITNESSES

We will begin this morning's hearing with a round of questions and testimony from the Honorable Dennis Goodman, the Deputy Assistant Secretary, Office of the Senior Deputy Assistant Secretary for International Organization Affairs.

Mr. Goodman, we welcome you to the subcommittee.

We regret very much that Assistant Secretary Williamson could not be here, but we understand that he is helping Secretary Shultz in Geneva.

Mr. GOODMAN. That is correct, sir.

Senator INOUYE. And his prepared remarks have been received and will be made part of the record at this point.

[The statement follows:]

STATEMENT OF

RICHARD S. WILLIAMSON, ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL ORGANIZATION AFFAIRS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

IT IS A PLEASURE TO APPEAR BEFORE YOU TODAY IN SUPPORT OF THE PRESIDENT'S FISCAL YEAR 1989 BUDGET REQUEST OF $200 MILLION FOR THE "INTERNATIONAL ORGANIZATIONS AND PROGRAMS" ACCOUNT. THIS REQUEST IS A SOUND ONE. AS YOU KNOW, THIS ACCOUNT FUNDS U.S. VOLUNTARY CONTRIBUTIONS TO DEVELOPMENT, HUMANITARIAN AND SCIENTIFIC ASSISTANCE PROGRAMS OF THE UNITED NATIONS AND THE ORGANIZATION OF AMERICAN STATES.

OUR REQUEST REPRESENTS A MODEST THREE PERCENT INCREASE OVER LAST YEAR'S REQUEST BUT IS BELOW WHAT WAS ACTUALLY APPROPRIATED FOR FY 1988. THE INCREASE IN OUR REQUEST ARISES FROM OUR SENSITIVITY TO THE PRIORITY WHICH CONGRESS ATTACHES TO THE PROGRAMS IN THIS ACCOUNT, TEMPERED BY A REALISTIC ASSESSMENT OF WHAT THEY CAN ACHIEVE AND THE ADMINISTRATION'S COMMITMENT TO MAINTAINING THE BUDGET SUMMIT COMPROMISE REACHED WITH THE CONGRESS LAST YEAR. WE HAVE DONE OUR BEST TO INCLUDE SUFFICIENT FUNDING FOR THE ORGANIZATIONS USUALLY INCLUDED IN OUR REQUEST AS WELL AS FOR SEVERAL ITEMS ADDED BY THE CONGRESS IN PAST YEARS TO OUR REQUESTS.

AS YOU KNOW, MR. CHAIRMAN, OUR CONTRIBUTIONS FUNDED BY THIS ACCOUNT ARE VOLUNTARY. AS A RESULT, THE CONGRESS AND THE ADMINISTRATION ALWAYS HAVE BEEN ABLE TO EXERCISE A GREATER MEASURE OF CONTROL OVER THE SIZE OF THE ACCOUNT AS A WHOLE AS

WELL AS THE AMOUNTS ALLOCATED TO THE INDIVIDUAL COMPONENTS. THEREFORE, THE KEY QUESTION BEFORE US TODAY IS -- HOW CAN WE BEST ASSURE THAT THE USE OF TAXPAYERS' MONEY FOR VOLUNTARY CONTRIBUTIONS PROMOTES THE INTERESTS AND VALUES OF THE AMERICAN PEOPLE? WE HAVE DONE OUR BEST TO STRIKE WHAT WE BELIEVE IS A REALISTIC BALANCE IN BEHALF OF TAXPAYER INTERESTS.

MY STATEMENT TODAY WILL FOCUS, FIRST, ON THREE GENERAL POINTS: THE DIVERSITY OF THE ACTIVITIES AND PROGRAMS IN THIS ACCOUNT, THE NEED FOR MULTILATERAL PROGRAMS TO ADDRESS GLOBAL CHALLENGES THAT NO ONE NATION CAN TACKLE ALONE, AND THE DIRECT BENEFIT OF THOSE ACTIVITIES FOR U.S. CITIZENS. I WILL THEN TURN TO A MORE DETAILED REVIEW OF THE ACCOUNT, WEIGHING THE IMPORTANCE AND EFFECTIVENESS OF THE PROGRAMS AGAINST THE FOUR CRITERIA WHICH WE HAVE USED TO HELP ASSURE THAT THEY DO, IN FACT, SERVE SIGNIFICANT U.S. INTERESTS.

DIVERSITY IN IO & P ACCOUNT

THIS ACCOUNT ADDRESSES SOME OF THE MOST CRITICAL GLOBAL CHALLENGES OF THIS DECADE. IT RANGES FROM THE OUTSTANDING EFFORTS IN CHILD SURVIVAL OF THE UNITED NATIONS CHILDREN'S FUND, TO THE MONITORING OF ECOSYSTEMS AND STORM SYSTEMS OF THE WORLD METEOROLOGICAL ORGANIZATION AND UNITED NATIONS ENVIRONMENT PROGRAM, TO THE EFFORTS TO HARNESS NUCLEAR ENERGY SAFELY AND EFFICIENTLY OF THE INTERNATIONAL ATOMIC ENERGY AGENCY.

THERE ARE LESS WELL-KNOWN PROGRAMS, WHICH ALSO AFFECT IMPORTANT GLOBAL ISSUES. FOR EXAMPLE, THE U.N. CAPITAL DEVELOPMENT FUND IS HELPING THE GOVERNMENT OF SOMALIA TO REHABILITATE RESERVOIRS WHICH PROVIDE SOME 700,000 NOMADS AND THEIR LIVESTOCK WITH WATER DURING THE DRY SEASON. THE U.N. EDUCATIONAL AND TRAINING PROGRAM FOR SOUTHERN AFRICA HAS TRIED, BY AWARDING SCHOLARSHIPS TO COLLEGE-AGE BLACK SOUTH AFRICANS AND NAMIBIANS, TO PROVIDE SUPPORT TO THOSE OPPOSED TO APARTHEID. U.S. CONTRIBUTIONS TO THE U.N. VOLUNTARY FUND FOR VICTIMS OF TORTURE PROVIDE MEDICAL AND LEGAL ASSISTANCE TO VICTIMS OF OPPRESSION.

NEED FOR A MULTILATERAL APPROACH

U.S. VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS ARE A SMALL, BUT IMPORTANT, PART OF OUR INVOLVEMENT IN THE INTERNATIONAL SYSTEM. IN MANY INSTANCES, U.S. UNILATERAL ACTIVITY WOULD NOT BE AS EFFECTIVE OR HAVE AS BROAD AN IMPACT AS DOES A MULTILATERAL EFFORT. IT WOULD, IN MANY INSTANCES, COST US MORE. FOR EXAMPLE, WEATHER FORECASTING BY WMO GIVES US FAST, EFFECTIVE ACCESS TO DATA FROM MANY OTHER NATIONS WHICH WE COULD NOT COLLECT OURSELVES.

MULTILATERAL PROGRAMS ARE ALSO ABLE TO OPERATE IN AREAS OF GENUINE NEED WHERE AN IDENTIFIABLE U.S. PROGRAM MIGHT BE UNWELCOME. IN ADDITION, U.N. AGENCIES CAN OFTEN ASSUME A COORDINATING ROLE IN URGENT AND SENSITIVE SITUATIONS. UNICEF HAS MADE AN IMPORTANT CONTRIBUTION THROUGH ITS PARTNERSHIP WITH THE INTERNATIONAL DONOR COMMUNITY IN PROVIDING EMERGENCY RELIEF IN WAR-TORN COUNTRIES -- FAR EXCEEDING U.S. CAPABILITY FOR OUTREACH.

BECAUSE OF UNEP'S GLOBAL APPROACH TO ENVIRONMENTAL ISSUES, SUCH AS PROTECTION OF THE OZONE LAYER AND CONTROL OF POLLUTION OF REGIONAL SEAS, INCLUDING THE CARIBBEAN, WE CAN MAXIMIZE COLLECTIVE EFFORTS TO PROTECT THE INTERNATIONAL ENVIRONMENT. THE SUCCESS OF RECENT NEGOTIATIONS TO PROTECT THE OZONE LAYER IS AN EXAMPLE OF THE KIND OF PROBLEM THAT THE UNITED STATES CANNOT TACKLE ALONE.

Another example of the need to find multilateral answers to multilateral problems is the safeguards system of the International Atomic Energy Agency. By U.S. law, the United States is required to apply IAEA safeguards to U.S. nuclear exports. Without the international safeguards system, we would be forced by our own laws to implement our own safeguards system. Such a system would almost certainly be less effective. It would definitely be more costly than the current international system.

Under our budget constraints, and as OECD-nation economic assistance to developing countries remains static, the effectiveness of U.N. system programs is more important than ever. U.S. contributions to these programs, though small by comparison with the billions the U.S. provides annually in economic assistance, give us considerable influence on the content and management of U.N. programs, making the U.S. a key voice in the way the international system addresses development problems.

Benefits to Americans

Too often there is a temptation to dismiss the IO & P Account as simply "foreign aid." Although it does indeed assist those abroad, it is important to underscore that U.S. citizens benefit directly and significantly from the activities funded through this account.

Many of the activities funded with IO & P money (for example, training) are undertaken here in the United States, or use U.S. experts, services, and equipment. A significant portion of this funding never leaves the United States, or it returns home to American pockets in the form of salaries or expenses. These economic and professional ties, moreover, have

LONG-RANGE IMPLICATIONS. NONE OF US CAN SAY WITH CERTAINTY JUST HOW MANY FOLLOW-ON CONTRACTS HAVE GONE TO U.S. FIRMS, HOW MANY U.S. EXPERTS HAVE BEEN REQUESTED BY NAME BY OTHER GOVERNMENTS, AND HOW MUCH U.S. EQUIPMENT HAS BEEN PURCHASED AS A SPIN-OFF OF U.S. ASSISTANCE PROVIDED BY IO & P ACTIVITIES.

THE FY 1989 REQUEST

LET US NOW TURN TO A MORE DETAILED REVIEW OF OUR REQUEST. MR. CHAIRMAN, OUR CONGRESSIONAL PRESENTATION FOR FY 1989 INDICATES PROPOSED FUNDING FOR EACH ORGANIZATION, INCLUDING A COMPARISON WITH LAST YEAR'S FUNDING LEVELS. AS I NOTED AT THE OUTSET, WE HAVE ALSO MADE A CONCERTED EFFORT TO ENSURE THAT FUNDS APPROPRIATED FOR FY 1989 ARE USED WISELY TO SERVE THE INTERESTS OF THE AMERICAN PEOPLE. IN CONSIDERING ACTIVITIES FOR INCLUSION IN OUR FUNDING REQUEST, WE HAVE APPLIED FOUR CRITERIA IN SCREENING THESE ACTIVITIES.

I BELIEVE THAT THESE FOUR CRITERIA WOULD ENJOY BROAD SUPPORT AMONG THE AMERICAN PEOPLE. ACCORDING TO THESE CRITERIA, EXPENDITURES FROM THIS ACCOUNT SHOULD:

--1. SERVE NATIONAL INTERESTS THAT CANNOT BE MET MORE EFFECTIVELY THROUGH EITHER UNILATERAL OR BILATERAL ACTIONS;

--2. DEMONSTRATE TANGIBLE U.S. SUPPORT FOR HUMANITARIAN ACTIVITIES;

--3. ENCOURAGE RELIANCE ON MARKET FORCES AND THE PRIVATE SECTOR WHICH ARE THE REAL ENGINES FOR DEVELOPMENT;

--4. REFLECT A COST-EFFECTIVE APPROACH TO IMPLEMENTATION OF PROJECTS AND PROGRAMS. THE OPERATIONAL IMPROVEMENTS WHICH THE UNITED STATES HAS ENCOURAGED FOR ORGANIZATIONS RECEIVING

OUR ASSESSED CONTRIBUTIONS SHOULD APPLY ALSO TO THOSE RECEIVING OUR VOLUNTARY CONTRIBUTIONS.

IN PREPARING OUR REQUEST, EVERY EFFORT WAS MADE TO ASSURE THAT THE ACTIVITIES TO BE FUNDED BY OUR PROPOSED CONTRIBUTIONS MEET THESE CRITERIA. I BELIEVE WE HAVE SUCCEEDED IN OUR EFFORTS. THESE AGENCIES ARE GENERALLY RESPONSIVE TO U.S. CONCERNS. WE DO BELIEVE, HOWEVER, THAT MOST OF THE ORGANIZATIONS IN THIS ACCOUNT COULD DO A MUCH BETTER JOB AT HIRING MORE AMERICANS. WE HAVE MADE THIS POINT CONSISTENTLY AND WILL CONTINUE TO WORK TO ASSURE EQUITABLE U.S. REPRESENTATION IN THESE INTERNATIONAL ORGANIZATIONS.

KEEPING IN MIND THESE CRITERIA, WHICH HELPED TO SHAPE OUR BUDGET REQUEST, MR. CHAIRMAN, I WOULD NOW LIKE TO FOCUS ON THE INDIVIDUAL PROGRAMS WITHIN THE ACCOUNT.

THE LARGEST ITEM IN THE ACCOUNT IS A $112 MILLION REQUEST FOR THE UNITED NATIONS DEVELOPMENT PROGRAM (UNDP). THIS AMOUNT REPRESENTS A SIGNIFICANT INCREASE OVER OUR FY 1988 REQUEST AND REFLECTS OUR LONGSTANDING POLICY TO STRENGTHEN THE UNDP AS THE PRIMARY SOURCE OF FUNDING AND OVERALL COORDINATION FOR TECHNICAL COOPERATION ACTIVITIES CONDUCTED BY U.N. SYSTEM AGENCIES AND PROGRAMS.

ADMINISTRATOR WILLIAM DRAPER, A U.S. CITIZEN, HAS STRENGTHENED THE MANAGEMENT REFORM EFFORT BEGUN BY BRAD MORSE, YOUR FORMER COLLEAGUE, IN 1985, AIMED AT IMPROVING PROGRAM QUALITY AND STRENGTHENING ITS IMPACT. THE INTERNAL MANAGEMENT REVIEW SYSTEM THAT ADMINISTRATOR DRAPER HAS PUT IN PLACE, COUPLED WITH THE INCREASED OVERSIGHT MADE POSSIBLE BY MEMBERS THROUGH THE UNDP GOVERNING COUNCIL'S WORKING GROUP OF THE COMMITTEE OF THE WHOLE, HAS OPENED UP NEW AVENUES TO THE IMPROVEMENT OF PROGRAM DESIGN, IMPLEMENTATION, AND FINANCING.

ADMINISTRATOR DRAPER, WITH COUNCIL MEMBERS FROM BOTH DONORS AND RECIPIENT COUNTRIES, IS COMMITTED TO ADDRESSING THE TOUGH MANAGEMENT PROBLEMS OF FAR-FLUNG FIELD PROGRAMS AND MAKING SURE UNDP'S ACTIVITIES MAKE A MEASURABLE DIFFERENCE. ONE ASPECT OF THIS CONCERN IS THE DISPERSION OF PROGRAMS INTO MANY SMALL ACTIVITIES. WITH THIS CONCERN IN MIND, WE HAVE ENCOURAGED UNDP TO FOCUS ITS EFFORTS. UNDP HAS BEEN RESPONSIVE TO THIS CONCERN IN, FOR EXAMPLE, ITS CAREFUL REVIEW OF ITS PROGRAMS IN AFRICA. UNDP CAN PLAY A CATALYTIC ROLE AND NEEDS TO RETAIN A BALANCE BETWEEN FLEXIBILITY AND FOCUS IN ITS PROGRAMMING. UNDP IS ALSO PLAYING AN INCREASINGLY IMPORTANT ROLE IN THE STRUCTURAL ADJUSTMENT PROCESS IN DEVELOPING COUNTRIES BY HELPING THEM FIND, IN CONJUNCTION WITH THE WORLD BANK, APPROPRIATE WAYS TO ADDRESS THE SOCIAL ISSUES IN THE DESIGN OF FUTURE STRUCTURAL ADJUSTMENT PROGRAMS AND STRENGTHENING THE CAPABILITY OF DEVELOPING COUNTRY OFFICIALS TO MANAGE THESE COMPLEX PROGRAMS.

THE SECOND LARGEST ITEM IN OUR REQUEST IS $32 MILLION FOR THE UNITED NATIONS CHILDREN'S FUND (UNICEF). THIS IS A MODEST INCREASE OF $2 MILLION OVER OUR FY 1987 REQUEST. UNICEF'S WIDELY ACCLAIMED, COST-EFFECTIVE MEASURES IN CHILD HEALTH -- PARTICULARLY IMMUNIZATION PROGRAMS AGAINST THE SIX MAJOR CHILDHOOD DISEASES AND THE PROMOTION AND USE OF ORAL REHYDRATION THERAPY -- ARE ESTIMATED TO AVOID UP TO 40,000 CHILDHOOD DEATHS PER WEEK. THE FUND IS ALSO INVOLVED IN OTHER IMPORTANT, IF LESS WELL PUBLICIZED, PROGRAMS, SUCH AS WATER SUPPLY AND SANITATION. OUR REQUEST REFLECTS OUR DUAL COMMITMENT TO THE SUBSTANTIVE WORK OF THE ORGANIZATION AND THE NECESSITY FOR FISCAL RESTRAINT.

THE THIRD LARGEST ITEM IN OUR REQUEST IS $24 MILLION FOR THE INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA). THIS REQUEST REPRESENTS A 7.6 PERCENT INCREASE OVER OUR FY 1988 REQUEST. THIS INCREASE CONTINUES OUR LONGSTANDING EFFORT TO REINFORCE

THE OVERALL CREDIBILITY AND EFFECTIVENESS OF INTERNATIONAL NUCLEAR SAFEGUARDS. APPROXIMATELY ONE THIRD OF THE TOTAL U.S. VOLUNTARY CONTRIBUTIONS TO IAEA FOR FY 1989 WILL BE SPENT IN SUPPORT OF THE SAFEGUARDS SYSTEM. THIS SUPPORT IS INCREASINGLY CRITICAL IN LIGHT OF GROWING DEMANDS ON THE IAEA FOR EXPANDED SAFEGUARDS COVERAGE, DUE TO THE INCREASING NUMBER AND COMPLEXITY OF NUCLEAR FACILITIES. STRONG U.S. FINANCIAL SUPPORT FOR SAFEGUARDS IS ESSENTIAL IF THE EFFECTIVENESS OF THIS CENTRAL ELEMENT OF INTERNATIONAL EFFORTS TO PREVENT THE FURTHER SPREAD OF NUCLEAR WEAPONS IS TO BE MAINTAINED. ALTHOUGH WE STRONGLY SUPPORT THE SAFEGUARDS PROGRAM, WE HAVE REGISTERED OUR CONCERNS REGARDING THE DOWNWARD TREND OF U.S. CITIZENS EMPLOYED IN THE SAFEGUARDS DEPARTMENT. I PERSONALLY HAVE HAD DISCUSSIONS WITH DIRECTOR GENERAL BLIX ON THIS SUBJECT, AND HE IS WELL AWARE OF MY EXPECTATIONS IN THIS REGARD.

MEMBERS OF THE ORGANIZATION OF AMERICAN STATES (OAS) LOOK TO THE UNITED STATES FOR SUPPORT IN WHAT THEY CONSIDER TO BE THEIR PRIMARY CONCERN -- TECHNICAL ASSISTANCE FOR DEVELOPMENT. OUR REQUEST OF $15 MILLION REPRESENTS A 5 PERCENT INCREASE OVER OUR FY 1988 REQUEST. WE BELIEVE IT DEMONSTRATES THE CONTINUED U.S. COMMITMENT TO THE INTER-AMERICAN SYSTEM AND WILL INFLUENCE THE LEVEL OF SUPPORT WHICH THE U.S. CAN EXPECT FROM OTHER OAS MEMBERS ON ISSUES OF CONCERN TO US, INCLUDING RESPECT FOR HUMAN RIGHTS, FAIR TRADE, PRIVATE INVESTMENT, AND NARCOTICS CONTROL.

OUR REQUEST FOR $6.8 MILLION FOR THE U.N. ENVIRONMENT PROGRAM (UNEP) IS A SIGNIFICANT INCREASE OVER OUR FY 1988 REQUEST. THE INCREASE IS A REFLECTION OF OUR SATISFACTION THAT UNEP'S PROGRAMS AND ACTIVITIES CLOSELY PARALLEL U.S. INTERESTS AND COMPLEMENT EFFORTS TO IMPROVE OUR OWN ENVIRONMENT. WE CONTINUE TO BELIEVE THAT OTHER DONORS MUST CONTRIBUTE A GREATER SHARE AND THAT WE WOULD LIKE TO SEE MORE AMERICANS EMPLOYED BY UNEP.

For some years, U.S. payments to the International Fund for Agricultural Development (IFAD) have been included in this account. IFAD is nearing the end of its second replenishment period, and the $2.5 million requested will complete our obligation. Negotiations for the third replenishment are getting underway, and they face many of the same problems that existed at the time the last replenishment was negotiated -- specifically, the capacity of the OPEC countries to continue to share the burden with OECD donors. We continue to believe that IFAD has a unique and important role to play in responding to the needs of small farmers and the landless poor. This role has increased in importance as developing countries, especially those in Africa, have recognized the need to take effective steps to revitalize their agricultural sector.

The World Meteorological Organization (WMO) serves important U.S. economic and strategic interests by providing vital worldwide weather information through its World Weather Watch Program. These data would otherwise be inaccessible to the United States or available only through the establishment of costly bilateral arrangements. This information assists the United States in the military, commercial, and civilian sectors, through such capabilities as storm detection, agricultural forecasting, and the determination of international shipping and air traffic routes. To assist funding this program, we are seeking $2.0 million for FY 1989.

The request for $1.8 million for International Convention and Scientific Organization Contributions (ICSOC) is related to the U.S. withdrawal from UNESCO. With the withdrawal, the United States no longer contributes its share of costs for some specific activities supported directly by UNESCO which significantly benefit U.S. domestic interests. The programs

PROPOSED FOR FUNDING UNDER THE RUBRIC "INTERNATIONAL CONVENTION AND SCIENTIFIC ORGANIZATION CONTRIBUTIONS" PROTECT THE MORE IMPORTANT, DIRECT BENEFITS TO AMERICAN SCIENTIFIC, EDUCATIONAL, CULTURAL AND BUSINESS COMMUNITIES -- BENEFITS WHICH WERE FORMERLY DERIVED THROUGH U.S. MEMBERSHIP IN UNESCO. ICSOC WILL FINANCE CONTINUED U.S. PARTICIPATION IN CRITICAL UNESCO ACTIVITIES SUCH AS THE UNIVERSAL COPYRIGHT CONVENTION, THE INTERGOVERNMENTAL OCEANOGRAPHIC COMMISSION AND THE MAN AND THE BIOSPHERE PROGRAM. ADDITIONALLY, WE HAVE INCLUDED UNDER THE ICSOC REQUEST FUNDING FOR TWO MAJOR INTERNATIONAL CONVENTIONS ON THE ENVIRONMENT, THE VIENNA CONVENTION ON THE PROTECTION OF THE OZONE LAYER AND THE CARTEGENA CONVENTION FOR THE PROTECTION AND DEVELOPMENT OF THE MARINE ENVIRONMENT OF THE WIDER CARIBBEAN REGION AND RELATED PROTOCOLS.

THE UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF) PROVIDES SEED CAPITAL, ON A GRANT BASIS, FOR SMALL DEVELOPMENT PROJECTS USING TECHNOLOGY APPROPRIATE TO COMMUNITY BASED DEVELOPMENT ACTIVITIES. BECAUSE OF THEIR SIZE, THESE PROJECTS ARE UNLIKELY TO ATTRACT FINANCING BY MULTILATERAL DEVELOPMENT BANKS. OUR REQUEST OF $1.5 MILLION WILL ENABLE UNCDF TO CONTINUE TO ASSIST IN PROJECTS FINANCED JOINTLY WITH BILATERAL AGENCIES AND OTHER MULTILATERAL INSTITUTIONS.

OUR REQUEST OF $800 THOUSAND FOR THE U.N. EDUCATIONAL AND TRAINING PROGRAM FOR SOUTHERN AFRICA, COUPLED WITH OUR REQUEST OF $250 THOUSAND FOR THE U.N. TRUST FUND FOR SOUTH AFRICA, PROVIDES TANGIBLE EVIDENCE OF A U.S. COMMITMENT TO PEACEFUL CHANGE IN SOUTHERN AFRICA AND A POSITIVE INDICATION OF OUR SUPPORT FOR THE FORCES OPPOSED TO APARTHEID.

OUR $500 THOUSAND REQUEST TO FUND THE U.N. INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO) INVESTMENT PROMOTION SERVICE OFFICE IN WASHINGTON, D.C. DOES NOT REPRESENT AN INCREASE OVER

LAST YEAR'S REQUEST, BUT DOES REPRESENT A SIZEABLE INCREASE OVER THE AMOUNT APPROPRIATED. WE HAVE REQUESTED THIS INCREASE BECAUSE PROMOTION OF PRIVATE SECTOR DEVELOPMENT IS A MAJOR U.S. PRIORITY BOTH IN INTERNATIONAL ORGANIZATION AFFAIRS AND IN DEVELOPMENT ASSISTANCE. UNIDO'S INVESTMENT PROMOTION SERVICE PROVIDES ONE OF THE CLEAREST EXAMPLES WITHIN THE U.N. SYSTEM OF THE IMPORTANCE OF PRIVATE INVESTMENT CAPITAL IN THE DEVELOPMENT PROCESS. THE PROGRAM STIMULATES THE PRIVATE SECTOR IN DEVELOPING COUNTRIES, WHICH LEADS TO INCREASED MARKETS FOR U.S. GOODS AND SERVICES. A CONTRIBUTION OF $500 THOUSAND TO THE WASHINGTON INVESTMENT PROMOTION OFFICE WOULD, FOR THE FIRST TIME, FULLY FUND THE ACTIVITIES OF THE OFFICE.

IN FY 1989, THE CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES (CITES) WILL CONTINUE ITS ROLE AS A MAJOR CONTRIBUTOR TO INTERNATIONAL CONSERVATION EFFORTS AND THE PRIMARY INTERNATIONAL MECHANISM GOVERNING INTERNATIONAL TRADE IN WILDLIFE. CITES WILL CONTINUE WORK ON MAJOR PROJECTS SUCH AS THE INVESTIGATION OF LEGAL AND ILLEGAL TRADE IN KEY SPECIES. OUR REQUEST INCLUDES $200 THOUSAND FOR CITES.

WE HAVE ALSO INCLUDED A REQUEST FOR THE U.N. VOLUNTARY FUND FOR VICTIMS OF TORTURE. OUR CONTRIBUTION TO THE FUND COMPLEMENTS OUR OBJECTIVES IN THE U.N. HUMAN RIGHTS COMMISSION AND U.S. BILATERAL HUMAN RIGHTS EFFORTS. A U.S. CONTRIBUTION OF $100 THOUSAND WILL HELP THE FUND EXPAND TO INCLUDE SOME SOCIAL SERVICES TO TORTURE VICTIMS AND TO THEIR FAMILIES ALONG WITH ITS PRESENT EMPHASIS ON MEDICAL AND PSYCHOLOGICAL TREATMENT.

MR. CHAIRMAN, I WOULD NOW LIKE TO ADDRESS THREE ITEMS INCLUDED IN OUR REQUEST, WHICH THE CONGRESS HAS OFTEN ADDED TO OUR REQUEST IN PAST YEARS.

THE FIRST OF THESE ITEMS IS A CONTRIBUTION OF $200 THOUSAND TO THE UNITED NATIONS FELLOWSHIP PROGRAM. THESE FUNDS WILL BE USED TO REIMBURSE, AT ESSENTIALLY A TOKEN LEVEL, U.S. GOVERNMENT OFFICES WHICH ADMINISTER PLACEMENT OF UNITED NATIONS FUNDED TRAINEES WHO COME TO STUDY IN THE UNITED STATES.

THE NEXT SUCH ITEM IN OUR REQUEST IS THE WORLD HERITAGE FUND. OUR $200 THOUSAND CONTRIBUTION WILL ASSIST NATIONS TO PROTECT UNIVERSALLY ACCLAIMED CULTURAL AND NATURAL SITES FROM DETERIORATION AND DESTRUCTION. I AM PLEASED TO ANNOUNCE THAT IN 1987 WITH THE INSCRIPTION OF CHACO CULTURE WORLD HERITAGE SITE IN NEW MEXICO; HAWAII VOLCANOES NATIONAL PARK IN HAWAII; AND THE MONTICELLO/UNIVERSITY OF VIRGINIA JEFFERSON THEMATIC IN VIRGINIA, THE UNITED STATES NOW HAS THE MOST SITES INSCRIBED ON THE WORLD HERITAGE LIST.

THE FINAL ITEM IS OUR $150 THOUSAND REQUEST FOR THE U.N. DEVELOPMENT FUND FOR WOMEN (UNIFEM) WHICH WILL SUPPLY CRITICAL FINANCIAL SUPPORT TO ENABLE UNIFEM TO ASSURE THAT CONSIDERATION OF GENDER ISSUES IS INTEGRATED INTO MAINSTREAM DEVELOPMENT ACTIVITIES. GIVEN THE STAGE AT WHICH THE U.N. SYSTEM IS IN TAKING ISSUES OF "WOMEN IN DEVELOPMENT" INTO ACCOUNT IN PROGRAM AND PROJECT DESIGN, IT IS IMPORTANT FOR UNIFEM TO STRENGTHEN ITS BUDGETARY PRACTICES AND MANAGEMENT TO ASSURE THAT THESE MONIES WILL BE USED EFFECTIVELY.

CONCLUSION

MR. CHAIRMAN, BEFORE CONCLUDING MY STATEMENT I WOULD LIKE TO EMPHASIZE ONE POINT WHICH IS TOO OFTEN OVERLOOKED. WE HAVE NOT ACHIEVED SUCH AN EXTRAORDINARY DEGREE OF INFLUENCE IN THE MULTILATERAL SYSTEM SIMPLY THROUGH THE SIZE OF OUR CONTRIBUTIONS ALONE. WE ENJOY THIS POSITION BECAUSE WE ARE RECOGNIZED AS THE LEADING THINKER ON DEVELOPMENT ISSUES, AND WE

BRING AN UNRIVALED LEVEL OF TECHNICAL EXPERTISE TO THE INTERNATIONAL COMMUNITY. IN FACT, OUR IDEAS AND EXPERTISE ARE OFTEN MORE IMPORTANT THAN THE NUMBER OF DOLLARS CONTRIBUTED. IT IS THE COMBINATION OF U.S. RESOURCES, INTELLECTUAL, FINANCIAL AND TECHNICAL, THAT MAKES US THE MAJOR FORCE IN THE MULTILATERAL SYSTEM. MR. CHAIRMAN, I BELIEVE THAT THE REQUEST BEFORE YOU TODAY IS SUFFICIENT TO MAINTAIN OUR ROLE AS THE MAJOR FORCE ON THE INTERNATIONAL DEVELOPMENT SCENE. IN FACT, OUR VOLUNTARY CONTRIBUTIONS TO THE INTERNATIONAL SYSTEM CONTINUE TO DWARF THOSE OF THE SOVIET UNION. ACCORDING TO DOCUMENTATION PROVIDED BY THE UNITED NATIONS, OUR VOLUNTARY CONTRIBUTIONS TO THE U.N. SYSTEM IN 1986 WERE ALMOST 30 TIMES HIGHER THAN THOSE OF THE SOVIET UNION.

MR. CHAIRMAN WE BELIEVE THAT U.S. CONTRIBUTIONS TO THE "INTERNATIONAL ORGANIZATIONS AND PROGRAMS" ACCOUNT BOTH REFLECT THE INTERESTS OF U.S. CITIZENS AND SERVE THE NEEDS OF OTHER NATIONS. I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU AND OTHER MEMBERS OF THE COMMITTEE MAY HAVE REGARDING THIS REQUEST.

ABSENCE OF KEY WITNESSES

Senator INOUYE. Mr. Goodman, I was under the impression that Ambassador Okun would be here to represent the U.N. mission, the U.S. mission to the United Nations.

Is he not going to be joining you today?

Mr. GOODMAN. He will not be, Mr. Chairman. We had hoped that he would be here, or at least that we would have a representative from New York, but there are some pressing issues there today in the Security Council concerning the West Bank, and they were unable to come down.

Senator INOUYE. Is there such urgency that they cannot make it here?

Mr. GOODMAN. Well, I guess they thought there was. They will be taking up—resuming the discussions that had been going on up through the end of March on recent activities on the West Bank in the occupied territories.

Senator INOUYE. I have been advised by staff that they flatly refused to come here.

Is that correct?

Mr. GOODMAN. I do not know that I would say they flatly refused. They simply——

Senator INOUYE. But they refused.

Mr. GOODMAN. But they did not come. That is correct.

Senator INOUYE. I hope you will convey to the Ambassador and to other members of the United States U.N. mission that as a member of the Commerce, State, Justice Subcommittee, I am going to look very closely into their workload and budget because this is an important committee. I am sure they have important work to do, but please point out to them that this hearing is also important.

Mr. GOODMAN. Yes, sir.

Senator INOUYE. So, Mr. Goodman, we are pleased to have you with us, so please proceed.

Mr. GOODMAN. Thank you, sir.

It is a pleasure to be here before you today on behalf of Assistant Secretary Williamson and the Bureau of International Organization Affairs in support of the President's fiscal year 1989 budget request for the International Organizations and Programs Account, and with your permission, Mr. Chairman, my oral comments today will be just a brief summary of the statement that has been submitted.

Senator INOUYE. The full statement has been made part of the record.

BUDGET REQUEST

Mr. GOODMAN. Our request, Mr. Chairman, represents a modest 3-percent increase over last year's request, but it is below what was actually appropriated last year. The increase in our request arises from our sensitivity to the priority which Congress attaches to the programs in this account, tempered by a realistic assessment of what they can achieve, and by the administration's commitment to maintaining the Budget Summit compromise reached with the Congress last year.

We have done our best to include sufficient funding for the organizations usually included in our request, as well as for several items added by the Congress in past years to our requests.

PROGRAM BREAKDOWN OF REQUEST

Within a total request of $200 million, the contribution to UNDP, the U.N. Development Program, still accounts for the largest share, $112 million, or just over half of the total, reflecting our continued support for UNDP's central role as the funder and coordinator of U.N. system technical assistance.

UNICEF accounts for another major portion, $32 million, or 16 percent.

U.S. contributions to these two organizations represent the major share of U.S. grants to multilateral development institutions. The request also includes sizeable allocations for other key multilateral programs such as the International Atomic Energy Agency, for which we are asking $24 million, the Organization of American States, $15 million, and the U.N. Environment Program, UNEP, $6.8 million.

As you know, Mr. Chairman, our contributions funded by this account are voluntary. As a result, the Congress and the administration always have been able to exercise a greater measure of control over the size of the account as a whole, as well as the amounts allocated to the individual components. Therefore, the key question before us today is how can we best assure that the use of taxpayers' money for voluntary contributions promotes the interests and values of the American people?

We have done our best to strike what we believe is a realistic balance on behalf of taxpayer interests.

GLOBAL REQUIREMENTS OF ACCOUNT

Mr. Chairman, this account is an unusually diverse appropriation. It addresses some of the most critical global challenges of this decade. It ranges from the outstanding efforts in child survival by the U.N. Children's Fund, to the monitoring of storm systems and ecosystems by the World Meteorological Organizations and the U.N. Environment Program, and to the efforts to harness nuclear energy safely and efficiently by the International Atomic Energy Agency.

There is too often a temptation to dismiss the account as simply an insignificant amount of foreign aid. Although it does indeed assist those abroad, it is important to underscore that U.S. citizens benefit from the activities funded through this account, for example, those that promote and monitor safeguards or provide weather information. U.S. citizens also directly and significantly benefit since many of the activities funded from this account are undertaken here in the United States or use U.S. experts, services and equipment.

Although our voluntary contributions to international organizations are relatively small, they do represent an important part of our involvement in the international system. In many instances, U.S. unilateral activity would not be as effective or have as broad an impact as does a multilateral effort, and would in many instances cost us more. For example, weather forecasting by WMO gives us fast, effective access to data from many other nations which we could not collect by ourselves.

As I noted at the outset, we have made a concerted effort to ensure that funds appropriated for fiscal year 1989 are used wisely to serve the interests of the American people. In considering activities for inclusion in our funding request, we have applied four criteria which I believe would enjoy broad support among the American people. According to these criteria, expenditures from this account should, first, serve national interests that cannot be met more effectively through either unilateral or bilateral actions; second, demonstrate tangible U.S. support for humanitarian activities; third, encourage reliance on market forces and the private sector which are the real engines for development; and finally, reflect a cost effective approach to implementation of projects and programs.

The operational improvements which the United States has encouraged for organizations receiving assessed contributions should apply also to those receiving our voluntary contributions.

Every effort was made to assure that these criteria are reflected in the activities to be funded by our proposed contributions. I believe we have succeeded in this endeavor.

U.S. EXPERTISE IN MULTILATERAL SYSTEM

In closing, Mr. Chairman, I would like to emphasize one point which is too often overlooked. We have not achieved such an extraordinary degree of influence in the multilateral system simply through the size of our contribution alone. We enjoy this position because we are recognized as the leading thinker on development issues, and we bring an unrivaled level of technical expertise to the international community. In fact, our ideas and expertise are often more important than the number of dollars contributed.

It is the combination of U.S. resources, intellectual, financial, and technical that makes us a major force in the multilateral system.

Mr. Chairman, I believe that the request before you today is sufficient to maintain our role as the major force on the international development scene.

I will be happy to try to answer any questions you and other members of the committee may have regarding this request.

Thank you, sir.

Senator INOUYE. I thank you very much, Mr. Goodman.

U.S. ARREARS TO UNITED NATIONS

What are the cumulative U.S. arrears owed to the United Nations and its agencies at this time?

Mr. GOODMAN. At the moment we are in arrears by about $350 million, I believe. That is to the total for the contributions to International Organizations account.

Senator INOUYE. And is your assessment agreed to by the U.N. agencies, or is there a conflict?

Mr. GOODMAN. Our assessed level agreed to?

Senator INOUYE. Yes.

Mr. GOODMAN. That is an accepted figure.

Senator INOUYE. The arrears level.

Mr. GOODMAN. Oh, the arrears level. No, I do not think I would say it was acceptable to the U.N. agencies. It is recognized as an obligation on our part.

I might add that our request for funds for fiscal year 1989, because of the Budget Summit compromise, will, if fully appropriated, put us another $166 million behind in total arrearages. That includes more than just U.N. organizations. So, if we get full funding for fiscal year 1989, we could be as much as $520 million in arrears.

U.S. PERSONNEL IN UNITED NATIONS

Senator INOUYE. You mentioned U.S. personnel in the United Nations.

I have been advised that we are seriously underrepresented, and we have been so from day one.

Is that the situation?

Mr. GOODMAN. It varies, sir, from organization to organization. Within the U.N. itself, that is the New York part of the U.N., we are within the correct range. There we are properly represented. They have a range, a lower and upper limit, and we are in about the middle of that. I do not think we can complain.

Senator INOUYE. I will be submitting a lot of questions relating to personnel. They are technical, so I would expect you to look over the files, such as how many Americans are presently employed, and in what categories, because we do have a lot of janitors and security people, but very few up there.

And I just want to see what the record shows.

Mr. GOODMAN. I would be glad to get you that information.

HIRING PRACTICES

Senator INOUYE. I would also like to have you respond to a question on hiring practices. Many of us were quite surprised that the investigation procedure instituted by the United Nations does not ensure that a thorough background check is made. The recent episode relating to the Secretary General pointed this out.

Has that been improved?

Mr. GOODMAN. I cannot say for sure that there has been a new procedure introduced. I think it is fair to say, though, that there will be a great deal more care applied in the future, looking at possible candidates for Secretary General, based on their past record.

PEACEKEEPING OPERATIONS

Senator INOUYE. One of the more important activities of the United Nations would be peacekeeping, and that is the reason for the existence of the United Nations.

What is the status of the peacekeeping operations?

Mr. GOODMAN. Well, there are several areas where the United Nations is actively engaged in peacekeeping, in southern Lebanon, in Cyprus, in the Golan Heights, and I think this is an area where the United Nations provides a very useful service. This is an ongoing area. There will be, I believe, a role for the United Nations, a very active role for the United Nations, as a follow-up to the Afghanistan settlement.

Senator INOUYE. I would like to congratulate all of you for the successful campaign that reached this point in the Afghanistan cease fire.

U.S. PEACEKEEPING ROLE IN AFGHANISTAN

Is there any peacekeeping role envisioned for the U.N. in Afghanistan?

Mr. GOODMAN. Yes, there is, sir. There may well be a massive refugee problem as Afghan refugees seek to return home, and I think there is a very real role for the U.N. there. They are in the process, as I understand it, of setting up a mechanism to assume a role, particularly in the refugee area, but also in rehabilitation, and I think the United Nations will be quite active there.

Senator INOUYE. Will there be any activity in peacekeeping, stationing of troops?

Mr. GOODMAN. At this point, they have been exploring with some countries the possibility of stationing troops as observers, on a limited basis, but I do not have the details on that. We would have to get that for you.

[The information follows:]

UNGOMAP

The Geneva accords provide for a limited U.N. observer group, which has become known as the United Nations Good Offices Mission in Afghanistan and Pakistan (UNGOMAP). The U.N. Security Council has approved the creation of this force. UNGOMAP is a small observer force of 51 military personnel, drawn from 10 countries (Austria, Canada, Denmark, Fiji, Finland, Ghana, Ireland, Nepal, Poland, and Sweden), and about 30 civilians. It has a limited mandate which calls for the monitoring of Soviet troop withdrawal as well as investigation of alleged violations of the accords, which went into effect on May 15. UNGOMAP will function for at least the 9-month period of Soviet withdrawal. A reduced number could remain in place for a longer period to help ensure secure conditions for the return of refugees. We expect UNGOMAP's mandate to be carried out in a balanced manner.

INCREASED CONTRIBUTIONS TO UNDP

Senator INOUYE. But this is under consideration.

Mr. GOODMAN. Yes, it is under consideration.

Senator INOUYE. During the past decade we have been the largest contributor to the UNDP, and I am pleased to note that other major donors have increased their contributions, but has this had an impact upon the U.S. leadership in UNDPs?

Mr. GOODMAN. I do not think so. An American, William Draper, is the Administrator of the U.N. Development Program. With the amount that we are requesting this year, we will continue to be the single largest donor, but countries like Sweden, Japan, the Netherlands, the Federal Republic of Germany, have all come up to the point where each of them is providing better than 8 percent of the total contributions to the UNDP. So combined, any two of them probably provide more funding than we do by ourselves. But we remain the major contributor.

ADDRESSING NEEDS OF AFRICAN COUNTRIES

Senator INOUYE. What steps has the UNDP undertaken to address the emergency needs of African countries, those affected by drought and famine?

Mr. GOODMAN. They assumed, under a former congressional colleague of yours, Brad Morse, the leading role about 3 or 4 years ago in the Ethiopian famine situation, that was a special arrangement that was established. It was done effectively, and the UNDP played a major role in that.

The UNDP resident representative in Ethiopia today, for example, is the principal coordinator for relief efforts in what is now becoming a potentially very difficult and dangerous situation.

Senator INOUYE. What percentage of the total of UNDP funding is spent in Africa?

Mr. GOODMAN. I think I probably have that here, but I do not have it in my head.

I am told by my colleague here that the figure for Africa is 38 percent of UNDP funding.

Senator INOUYE. We have a few other technical questions on UNDP, if you could provide us with an answer.

Mr. GOODMAN. We would be happy to.

EVALUATING WORK OF U.N. ORGANIZATIONS

Senator INOUYE. We have been told by the State Department that you will be, together with other U.S. domestic agencies, evaluating the work of U.N. organizations.

Has this work been done, the work of the evaluation?

Mr. GOODMAN. We are constantly in a process of evaluating the work of these organizations.

Senator INOUYE. And what are the results?

Mr. GOODMAN. Well, the results I guess are best summarized by the fact that we have determined that in the case of five out of the six specialized agencies, we can proceed to fund them to the best of our abilities on the basis of their having implemented certain budgetary and other reforms that we had called for. In the case of one, we have not been able to do that. That is the Food and Agriculture Organization.

Senator INOUYE. In fact, Secretary Williamson indicated in his statement that the objective of evaluation was to enable the United States to "make more concrete proposals for reducing, eliminating or expanding specific activities, or for starting new ones."

Has this been done?

Mr. GOODMAN. Well, I guess—I am not sure what the best way to answer that is except that we are in a constant dialogue with all of these organizations, working to improve their budget situations, to improve their efficiency, and it is an ongoing process.

UNICEF BUDGET REDUCTION

Senator INOUYE. Is the reduction of UNICEF, for example, from $54 million to $32 million, a result of this evaluation?

Mr. GOODMAN. Well, another way of looking at the funding request for UNICEF is that it is a small increase over what we asked for last year. It is, of course, a sizable drop from what we got last year. That is not a result of an investigation that would have shown UNICEF to be a poorly functioning organization. On the contrary, we think very highly of UNICEF.

IFAD REDUCTION

Senator INOUYE. Is one of the results of the evaluation a reduction of IFAD from $30 million to $2,500,000?

Mr. GOODMAN. No, sir. No, that is for a technical reason, that is, that that $2 million figure is to pay the remaining amount that we owe on the second replenishment. They have just now this month begun negotiations on the third replenishment for IFAD, but those negotiations are expected to carry on beyond the fiscal year and into October; we do not know what our request must be to meet our obligations under the third replenishment.

But it does not reflect any kind of a reduction or a negative reaction to IFAD in any way.

U.N. DEVELOPMENT FUND FOR WOMEN

Senator INOUYE. Is the reduction of funds for U.N. Development Fund for Women from $220,000 to $150,000 part of the evaluation?

Mr. GOODMAN. No, sir. I think in the case of that and in all of these, it is a question more than anything of trying to figure the best way to apportion out a limited amount of funding.

IAEA INCREASE

Senator INOUYE. Is the increase in the International Atomic Energy Agency from $21,800,000 to $24 million part of the evaluation?

Mr. GOODMAN. We think very highly of that organization, as well, and that represents a need for increased funding for their safeguards program and their technical assistance program.

Senator INOUYE. I have many other questions I would like to submit to you, if I may, sir, and at this time call upon my distinguished Vice Chairman of the Committee, Senator Kasten.

Senator KASTEN. Mr. Chairman, thank you.

ATTITUDE OF U.N. GROUP

Mr. Goodman, I understand that Senator Inouye began by saying that we are disappointed by the attitude of the U.N., U.S. U.N. group in New York. Normally we have had Ambassador Kirkpatrick and Mr. Keyes who have been organized and prepared, and we have worked back and forth with them. I know I should not be picking on you because you are the one who ended up here, but I understand that a request was made to have someone here who would be representing the United Nations in New York because a number of us have a number of important questions about budget, about secondment, about their whole overall attitude toward reform, about the U.N. voting percentages, which have gone down now. Is it that they did not want to come because they were afraid of questions from this subcommittee?

Mr. GOODMAN. I cannot speak for them on that, Senator. I know we talked to them several times yesterday, and I was anxious to have company up here, as a matter of fact, but they are caught up in Security Council procedures. Ambassador Walters is traveling, and they felt they could not be absent.

Senator KASTEN. Well, Ambassador Walters is down in South America, and Rich Williamson went to Geneva. I do not have any problem with Rich Williamson going to Geneva. That was something that was organized with the Secretary. But, I do not know how many people are in the U.S. gang in New York, but there certainly are a number who could have been here to respond to some of these questions which, frankly, you are not in as good a position to respond to as they are.

I do not know, Mr. Chairman, if somehow we can wrestle one of these people away from the French restaurants they are having lunch at today. But this is just not acceptable in my view, when we have a number of questions, and some in that group are asking us to let $44 million over and above the $100 million that we let go before when the reforms are not in place, and then they refuse to even show up. I mean, it is just nuts.

And yesterday General Walters was in my office early in the morning saying everything is great, reforms have been made, we want the $44 million. Today they will not even have someone come to the hearing in order to explain some of the important issues.

So I am going to try to work through a couple of them with you just to get some points on the record.

BUDGET PROCESS REFORMS

As I understand it, our main concerns have been reform over the budget process and this whole issue of the Soviet and Eastern Bloc countries using secondment with their people.

Last year the Congress and this subcommittee released $100 million which had been held back because of congressional action. We released that $100 million because a number of people, including the Secretary of State and Mr. Whitehead and General Walters and others prevailed upon the Congress that if we started to work with the United Nations, the United Nations would start to work with us toward reform.

It is my understanding that nothing has happened in any areas that would demonstrate that they are working toward reform in the budgetary area. Is that correct, that nothing could be looked upon as a step made in our way?

Mr. GOODMAN. There has been progress, Senator, on the question of cutting the size of the staff there, what is sometimes referred to as the administrative reform, where requirements of the reform package, 41–213, the resolution from 1986, call for a 15 percent cut in staff.

Senator KASTEN. And I understand that they agreed to do that, and they reached the 15 percent reduction faster than they might have done.

Mr. GOODMAN. I think they are doing okay on that, and at the more senior levels, Under Secretaries and Assistant Secretaries General, there is to be a 25 percent cut, and I think that they may have already met that target. So there is real progress on that end of the reform.

COMMITTEE FOR PROGRAM AND COORDINATION

Senator KASTEN. Let's talk about the budget reform. I understand that there may have been a little movement on the administrative portion.

What does CPC stand for?

Mr. GOODMAN. It stands for the Committee for Program and Coordination.

Senator KASTEN. The Committee for Program and Coordination was established as part of the reform process to get control of the budget, is that correct?

Mr. GOODMAN. Well, not quite, sir. Actually, it already existed. It was an existing body that reviewed the budget, the program aspects of the budget. It was given by the reform package, the reform resolution, new responsibilities which included setting an overall limit on the budget, establishing within that limit a contingency fund, and looking at the program priorities in the budget; perhaps most importantly, all this was to be done on a consensus basis.

Senator KASTEN. And that committee was to get as a result of these reforms, increased ability to control this process, which was one of the key elements of reform.

Mr. GOODMAN. That is right, that is correct.

Senator KASTEN. And as I understand it, the $100 million which the Congress sent—it turned out to be $90 million, I guess, but the money which the Congress sent arrived on December 3 in New York, or at least was made available on December 3 to the United Nations—this is the money that we were in arrears on.

Mr. GOODMAN. That is correct.

Senator KASTEN. And not even 2 weeks later, on December 17, the United Nations General Assembly voted 152 to 1 to dilute the authority of the Committee on Program Coordination by adding a number of members, which meant that the United States, the Soviet Union and others who have been working for reform, had relatively less influence.

Mr. GOODMAN. That is right, they increased the size of the committee from 21 members—we are and were a member—to 34 members.

Senator KASTEN. So they increased the size of the committee by a third.

Now, it seems to me that that is not in keeping with the overall spirit of the agreements that we made with them on reform. It is particularly not in agreement with the spirit in which the Congress released the $100 million. We released the $100 million on the basis that the United Nations was going to be trying to work with us toward budgetary reform, and in fact, their response to the $100 million was to reform in the opposite direction, to dilute the effectiveness of the reform, and we had one vote, ours.

Mr. GOODMAN. That is correct.

Senator KASTEN. Where does the leadership come from? What do all these people do? Do they just sit there and watch these things happen?

This is not in the spirit of the reform that we asked for.

Mr. GOODMAN. Well, we were disappointed, and, of course, we registered that, at least by a negative vote on the increase. In the case of some countries who are interested in budgetary reform but nevertheless voted in favor of the increase in the size of the CPC, I have no doubt that in their minds was the desire to have a better chance of being a member of an enlarged CPC; that would explain their vote.

Senator KASTEN. Well, as members of the Appropriations Committee, we understand that lots of other people might want to be on the Appropriations Committee, but that is not the point. The point is that this reform had the effect of diluting the efforts that some were trying to make to get the budget under control. I do not know what the result is going to be because it is going to be until August or September before we even start to see some drafts of what they are doing.

Mr. GOODMAN. That is right.

SECONDMENT PROBLEM

Senator KASTEN. Let me just switch to another subject, and then we will come back for more questions.

This also has to do with the United Nations. It is the other element of this so-called reform effort that we are going for. The Congress is trying to get at the problem of secondment, which means that Russia, the Soviet Bloc countries, retain control over key positions in the Secretariat, and we have made elimination of the secondment process a condition of full funding of the United Nations. Senator Heinz and others as well as members of this subcommittee have been involved in that process.

As I understand it, over 98 percent of Soviet Bloc nationals in the U.N. system are still on secondment, which means they get paid not by the United Nations but by the Soviet Union, they are rotated through certain positions, and in effect, the Soviet Union and the Eastern Bloc countries think that they have these positions as theirs. They just take their people in and out.

Now, can I assume, based on that point—am I right with my 98 percent?

Mr. GOODMAN. I think 97 is actually the figure, but in the case of the Soviet Union and the two other Soviet entities there, it is 100 percent.

Senator KASTEN. It is 100 percent for the Soviet Union and the two Soviet entities. It is a 97 percent average of the Soviet Bloc nationals.

Mr. GOODMAN. With the East Bloc, yes.

Senator KASTEN. Depending on how we round. We could maybe bump it back up to 98.

Can I assume that based on those facts and our understanding and knowledge of the current situation with respect to secondment, that the administration is not then planning to certify that progress has been made on the secondment? We might be able to argue on the personnel issue.

Mr. GOODMAN. Well, this is something we are in the process of looking at very closely. We have done a number of things. The administration for over a year now, in the form of letters to the Secretary General from the Secretary of State, from the Deputy Secretary of State, discussions by Ambassador Walters with the Soviets, and other things, has at least attempted to put this issue on the table, to bring it to their attention, and to make clear that they understand what the requirements are in our law for us to be able to proceed with further distribution of funding.

We have not yet made any certification or determination, but it is an issue that we are very actively looking at.

Senator KASTEN. At 100 percent for the Soviet Union and 97 percent average for the Soviet Bloc nationals, I cannot see how anyone could certify that progress has been made.

I understand there have been some housing changes, and maybe not quite as many people are living in the Soviet housing facilities, but the issue in the law is secondment, and 100 percent is 100 percent, and 97 or 98 percent are 97 and 98 percent.

Mr. Chairman, I have some other questions, but I think there are some others that want to ask questions.

Senator INOUYE. Senator Nickles?

Senator NICKLES. Thank you, Mr. Chairman.

I would just make one comment, Mr. Goodman, and a lot of it was made very eloquently by Senator Kasten concerning my hope that we would have a representative from the United Nations here, whether it be Ambassador Walters or who, because I think there are some problems, and many of us including Senator Kasten and the chairman have been stating for some time the desire for some reforms.

We have been concerned about countries that continue to vote against the United States and then continue to come back to the United States and say we want you to be paying the bill. So I would hope that we could rectify that.

BUDGET REQUEST INCREASE

The total amount requested was what, $200 million?

Mr. GOODMAN. Yes, sir.

Senator NICKLES. In 1988 it was anticipated to spend more than that amount, $240 million something?

Mr. GOODMAN. Last year the appropriation for fiscal year 1988 was $244 million. We are asking——

Senator NICKLES. What did you request last year?

Mr. GOODMAN. We requested $194 million.

Senator NICKLES. So your request is an increase from your request last year, and Congress increased that amount?

Mr. GOODMAN. Yes, it is a 3 percent increase—our request this year is a 3 percent increase over our request for last year.

EDUCATION AND TRAINING PROGRAM FOR SOUTHERN AFRICA

Senator NICKLES. I noticed some funds for U.N. Education and Training Program for Southern Africa.

Is that South Africa, or is that for other countries as well?

Mr. GOODMAN. Other countries.

Senator NICKLES. Other countries? Not South Africa?

Mr. GOODMAN. If I may, I might prefer to have one of my colleagues comment on that since I am not fully conversant with how that funding is distributed.

Senator Nickles. There are actually a couple of programs I am looking at. One is the U.S. Trust Fund for South Africa, which was $250,000, and then U.N. Education and Training Program for Southern Africa.

Mr. Goodman. If I may, I can read to you what the purposes of this trust fund for South Africa are, and that is to provide legal, educational and humanitarian assistance to persons suffering from repressive and discriminatory government actions in South Africa and in Namibia.

The trust fund provided grants to such groups as the Washington based Lawyers Committee for Civil Rights and Law in South Africa.

Senator Nickles. Let me ask you a question. It provided a grant to the Washington based what?

Mr. Goodman. Lawyers Committee for Civil Rights and Law in South Africa.

Senator Nickles. What was the size of that grant?

Mr. Goodman. I do not have that figure.

Senator Nickles. Do you think that is an appropriate use of taxpayers' dollars?

Mr. Goodman. We do.

Senator Nickles. I would like to know the amount of that grant.

Mr. Goodman. We will have to get you those figures.

[The information follows:]

TRUST FUND FOR AFRICA

For reasons of confidentiality and to protect the recipients, the Trust Fund for South Africa does not make public the specific activities it finances. These details are normally provided only to the trustees of the Fund and the auditors. The Trustees of the Trust Fund are aware of our concerns about the proper use of the funds.

The Committee of Trustes of the Trust Fund is as follows:

Mr. Anders Ferm (Sweden), Chairman
Major-General Joseph N. Garba (Nigeria), Vice Chairman
Mr. Pedro Daza (Chile)
Mr Driss Slaoui (Morocco)
Mr. S. Shah Nawaz (Pakistan)

COMMITTEE OF TRUSTEE GRANTS

Senator Nickles. Continue with your statement. I did not mean to interrupt you.

Where are you reading from?

Mr. Goodman. This is from—I do not know if you have the same information or not.

Senator Nickles. I do not. Go ahead.

Mr. Goodman. Five grants made by the Committee of Trustees during 1987 totalled $3.2 million. These funds were used for legal assistance to persons persecuted under repressive and discriminatory legislation of South Africa, for the relief of such persons and their dependents, and for the relief of refugees from South Africa, and for the relief of persons suffering persecution in Namibia.

I can go through the rest of this, if you would like.

Senator NICKLES. Would you give to my office or to the committee a list of who the recipients are of those grants and the purposes of those grants.

Mr. GOODMAN. Yes, sir.

Senator NICKLES. Are those grant recipients to U.S. lawyers? Is that the majority of it, or is the money going into South Africa, and if it is going into South Africa, who are the recipients of the money?

Mr. GOODMAN. I think it would be better if I tried to get you a full packet of information on that.

Senator NICKLES. I would appreciate that.

Mr. GOODMAN. Fine.

Senator NICKLES. Thank you very much.

Thank you, Mr. Chairman.

[The information follows:]

GRANT TO SOUTH AFRICAN LAWYERS

I understand that with respect to the grant to the Washington-based Lawyer's Committee for Civil Rights and Law in South Africa, most of the money goes to lawyers in South Africa. The Trust Fund has informed us that it does not make public the names of recipients of specific grants, in order to protect the recipients of such assistance from any harassment or retribution for their activities. The trustees review the audited financial statements of the Trust Fund annually.

IAEA INVOLVEMENT IN CHERNOBYL

Senator INOUYE. I have a few other questions, if I may.

Has the International Atomic Energy Agency involved itself in the aftermath of Chernobyl?

Mr. GOODMAN. Yes, sir, it was very much involved in that, it had a very active role in that.

Senator INOUYE. Has it done anything to make certain that the Chernobyl incident does not repeat itself?

Mr. GOODMAN. They have a very extensive and, we think, very important safeguards program, and they really are the key agency for trying to ensure that this sort of thing does not happen.

Senator INOUYE. On that same agency, many of us have been concerned about the politicization of the Atomic Energy Agency.

Has anything been done?

Mr. GOODMAN. Well, there was, maybe 2 or 3 years ago, there was a real challenge, for example, to Israeli credentials, as I recall. In fact, Ambassador Williamson played an active role in killing that when he was ambassador to the U.N. Agencies in Vienna.

I think it is fair to say that at least some of that politicization has been attenuated. As is true in virtually, not all but certainly many of the U.N. agencies, there is a tendency on the part of some governments to bring political issues in where we would certainly prefer not to see them, and we try to combat that.

Senator INOUYE. One of our major concerns, obviously, is the dollar, spending, and as Senator Nickles has made it very clear throughout his involvement in this committee, he wants to make certain that the U.N. is spending money properly.

However, in the early 1970s, AID pulled out its field personnel that were monitoring U.N. projects. Then, later on, the State Department cut back on cable traffic reporting on U.N. projects. And we have never had any member in attendance, Members of Congress, we have never been invited to attend any of the meetings of the governing council.

My question is how can we, the United States, be expected to remain informed about the work of the United Nations and be an active player in the life of these organizations if we are not kept properly informed of the activities?

Mr. GOODMAN. One of the ways, Mr. Chairman, that we actively encourage the Congress to be involved is through their membership on our delegation to the General Assembly each fall. One year it is two members from the Senate side, and the next year two from the House side, and that of course is something we encourage. We welcome it because I think for many it is a real eye-opening experience as to how the United Nations operates and what it does, and I think it is very informative.

We would welcome the interest of the Congress.

CONGRESSIONAL REPRESENTATIVES AT UNDP MEETINGS

Senator INOUYE. Are the congressional representatives invited to sit in on the meetings of the governing council of UNDP?

Mr. GOODMAN. Of UNDP? Not normally, I think, but that is a separate meeting which takes place one year in Geneva, one year in New York. I do not think—I am not aware that we have had congressional representation on that. We certainly do when——

Senator INOUYE. The answer is no.

Mr. GOODMAN. When we deal with the reports of UNDP coming through the Economic and Social Council of the General Assembly, there is certainly the opportunity to look into that. By having congressional representatives in New York during the fall session of the General Assembly, there is a good opportunity for them to meet with the administrators of UNDP, to talk to delegations, and to look at this whole thing.

Senator INOUYE. Other international organizations like the banks have always invited Members of Congress. Unfortunately, I have not had the time to attend any of them, but we have always sent members of the staff there, and these invitations have been extremely helpful, but we notice the U.N. has been keeping it away from us.

Will you pass that message on and tell them that Senator Nickles is very unhappy about it.

Senator NICKLES. Thank you, Mr. Chairman.

Mr. GOODMAN. Yes, indeed.

UNDP PROGRAMS IN COMMUNIST COUNTRIES

Senator INOUYE. UNDP has programs in several socialist countries such as Bulgaria, Romania, Ethiopia, Cuba and Afghanistan. I gather that most of these programs are technical in nature rather than humanitarian in nature.

My question is how closely are they being monitored by the administration?

Mr. Goodman. Well, by nature, UNDP programs are to be technical, technical assistance, and that is what their business is.

I can speak from a certain personal involvement, when I was based in New York and there was a UNDP program for teacher training going on in Afghanistan. We watched that very closely. It was conducted by Soviet trainers, and it caused us a lot of difficulty, and eventually that program was phased out.

Senator Inouye. Can you give us a report on what sort of activities are being funded by UNDP? After all, we are the major donors there.

Mr. Goodman. That is right. We will be glad to supply you that information.

[The information follows:]

UNDP PROJECTS IN AFGHANISTAN

I submit, for the record, the attached list of ongoing UNDP projects in Afghanistan as of December 31, 1987.

Ongoing UNDP Projects

Project No.	Title	Agency	1982-86 Expenditures	1987 Approved/ Projected	1988 Approved/ Projected
AFG/70/527	Agriculture Development Bank	IBRD	5,114		
AFG/74/022	Veterinary Faculty	FAO	3,883,984	180,000/180,000	177,769/
AFG/75/012	Agricultural Machinery	FAO	122,159		
AFG/75/027	Civil Aviation	ICAO	228,606		
AFG/76/003	Rural Development	UNDTCD	702,901		
AFG/76/009	Animal Health Phase II	FAO	233,961		
AFG/77/004	Planning Capability	UNDTCD	644,102		
AFG/77/008	Industrial Bank	IBRD	(790)		
AFG/78/004	Trade Promotion	ITC	1,037,538		
AFG/78/007	Parks and Wildlife	FAO	5,190		
AFG/78/008	Program Support	UNDP	405,169	35,745/36,591	
AFG/78/009	Malaria Control	WHO	311,472		
AFG/78/010	Teacher Training	UNESCO	505,154		
AFG/78/016	Agricultural Cooperative	FAO	(15,924)		
AFG/78/017	Plant Protection Service	FAO	3,372,471	139,200/60,200	/79,000
AFG/78/019	Social Security	UNDTCD	1,292		
AFG/78/020	Management Institute	ILO	314,176		
AFG/78/021	Biogas Technology	FAO	29,408		
AFG/79/002	Literacy Campaign	UNESCO	843,493	7,600/6,085	
AFG/79/004	Science Education	UNESCO	518,801	54,149/40,187	
AFG/79/005	Education Planning	UNESCO	334,369		
AFG/79/009	Forestry & Watershed	FAO	25,846		
AFG/80/002	English Language Training	UNESCO	925,239	224,392/202,812	
AFG/80/004	Civil Aviation Fellowships	ICAO	1,235,495	70,400/70,400	22,800/22,800
AFG/81/002	Agric. Cooperative Training	FAO	846,821		
AFG/81/007	TB Advisory Services	WHO	47,190		
AFG/82/001	Veterinary Services	FAO	2,849,905	206,931/60,000	100,000/50,000
AFG/82/003	Forestry Department	FAO	731,153	25,800/25,800	
AFG/82/004	Seed Production & Training	FAO	1,063,572	485,562/485,562	
AFG/82/005	Kabul Water Supply	WHO	1,097,688	(10,697)/2,203	
AFG/82/006	Water Secretariat	WHO	107,441		
AFG/82/008	Vegetational Mapping	FAO	492,896	174,000/174,000	
AFG/83/001	Telecom. Plan & Maintenance	ITU	1,103,161	499,251/425,000	
AFG/83/004	Social Security	UNDTCD	550,105	690,353/485,353	525,687/730,687
AFG/83/019	Teacher Education	UNESCO	672,051	4,200/5,119	
AFG/83/020	Rural Development	UNDTCD	1,254,753	55,632/66,000	
AFG/83/022	Planning Capability	UNDTCD	831,896	56,000/66,000	14,000/14,000
AFG/84/013	Agricultural Machinery	FAO	151,927	(1,030)/(1,030)	
AFG/84/014	Dairy Development Study	FAO	48,784		
AFG/84/015	Trade Development	ITC	835,847	187,596/170,000	
AFG/84/016	Women's Development	UNDP	56,042	40,270/40,270	97,688/97,688
AFG/85/011	Logistic Support	UNDP	138,343	204,957/200,000	36,400/36,400
AFG/85/012	Umbrella Proj. for Prog. Support	UNDP	92,618	230,973/199,973	50,500/81,500
AFG/85/014	Agric. Development Bank	FAO			281,111/281,111
AFG/85/015	Agricultural Research	FAO		15,000/15,000	
AFG/85/017	Solar Energy	UNDTCD	50,371	533,256/350,256	435,203/435,203
AFG/85/028	Agriculture Development	FAO			216,670/216,670
AFG/85/029	Agricultural Training	FAO		22,000/22,000	
AFG/86/001	Veterinary Faculty	FAO		1,641,496/694,242	830,746/1,693,000
AFG/86/004	Herbal Medicine	UNESCO		3,300/3,300	
AFG/86/005	Waterworks Managment	UNDP		1,255,600/1,744	493,900/991,100
AFG/86/006	Irriga. & Water Management	FAO		154,900/154,900	141,350/141,350
AFG/86/007	Agricultural Planning	FAO		83,875/83,875	362,228/362,228
AFG/86/009	Multi-Sectoral Studies	UNDP	168	167,500/53,000	371,332/421,032
AFG/86/010	Seed Production & Training	FAO		211,900/211,900	445,040/445,040
AFG/86/011	Forestry Department	FAO		325,500/325,500	474,300/474,300
AFG/86/012	Plant Protection Training	FAO		87,000/67,000	60,000/60,000
AFG/86/013	Qargha Fish Farm	FAO		8,000/	64,945/72,945
AFG/86/024	Solid Waste Management	HABITAT			115,000/115,000
AFG/86/031	Packaging Design	ITC			125,400/92,000
AFG/86/032	Pilot Housing	HABITAT		22,000/22,000	
AFG/86/036	Water Secretariat	UNDP		154,500/	132,000/
Totals			28,591,998	8,247,703/4,995,834	5,442,069/7,045,054

U.N. CONVENTION ON TERRORISM

Senator KASTEN. Mr. Goodman, are you familiar with the process by which the United Nations is drafting a convention on terrorism?

Mr. GOODMAN. No, sir, I am not.

Senator KASTEN. This is why we need people that know these answers. My understanding is that there is a convention on terrorism now being drafted, and that the chairman of the convention is a national of Libya. I mean, this is going to be a how to course on terrorism, it seems to me.

Mr. GOODMAN. I am sure he has plenty of expertise.

Senator KASTEN. My further understanding is that the United States has a representative participating in this process even though we have a Libyan drafting a convention on terrorism.

Now, you cannot answer that one way or the other because you are not aware of it.

Mr. GOODMAN. I assume this is a Sixth Committee, Legal Committee exercise.

Senator KASTEN. I mean, this is just crazy.

Senator INOUYE. Can we get that again?

Senator KASTEN. We have the United Nations in the process of drafting a convention, a document, on the United Nations concern about terrorism, and the person that the United Nations has picked to be the chairman of this drafting committee is a national of Libya, and the United States as of now has not walked out or protested. Evidently they are participating in this process. We walk in, and the chairman of the board, the person with the gavel is——

Senator INOUYE. At least we have got an expert there.

Senator KASTEN. We have got an expert. That is what I say. It is a how-to course on terrorism, and they know how to teach it.

Mr. GOODMAN. A year ago the Chairman of the Human Rights Commission was a Byelorussian, which is to say a Soviet.

So you get these contradictions.

Senator INOUYE. Is Iran involved in this?

Senator KASTEN. This is among a number of other more specific questions that we wanted to address to some of the people who perhaps should be here, but aren't.

VOTING PRACTICES IN U.N.

Let me just switch if I can. I have a couple of questions having to do with the latest voting practice report. It shows less support for the U.S. than ever before.

Why do you think this is happening?

Mr. GOODMAN. We do not talk about this quite in terms of support for or opposition to the United States but rather in terms of coincidence of voting with the United States. But the fact is that the coincidence of voting in the last General Assembly dropped to 18.6 percent, which was better than a 20 percent decline from the figure the year before, which was 23.7 percent. And it is the lowest since we started keeping a detailed scorecard on it.

There are a variety of reasons, and it is hard to say why, whether we are taking harder positions, whether others are taking more difficult positions from our point of view, whether it is the issues that are coming up. I tend to think it is a combination of a number of things, but in my view it reflects a major problem, the kinds of issues that are dealt with in the United Nations.

There is a preponderance of attention devoted to certain areas where we find ourselves too often simply having to vote alone, in isolation or with very few others, issues on Southern Africa, issues on the Middle East, for example.

But the fact remains that the coincidence of voting is way down.

Senator KASTEN. Let me just make an editorial comment because I do not know how this was cooked in New York or in the State Department or whatever, but if you read the introduction to this year's voting rights report, it paints a glowing, positive picture, and you have to go back and calculate the votes to figure out the fact that we have dropped 20 percent.

The introduction to the report looks like it does not belong with the report except for the fact that some who wrote the introduction and the report were hoping that there would be some that would just read the introduction and never go back and look at the tables.

But I know this is not your problem, and it is another question that should be addressed to the people who are in New York or other people who have been involved in this process.

Senator NICKLES. Will the Senator yield?

U.S. SUPPORT IN U.N. VOTES

What was the percentage of support for this last year?

Mr. GOODMAN. 18.6 percent coincidence, and let me just explain.

The methodology only compares yes-no votes, where the United States voted yes or no, and the other country with whom we are comparing ourselves voted yes or no. And through that methodology, we were able to make comparisons on 129 votes in the General Assembly, on resolutions and paragraph votes and various things. And on that basis of comparing what would have been a maximum of 129 votes with any one country—in some it is much fewer—the coincidence came out at 18.6 percent, which is the lowest that it has been since we started keeping track.

Senator KASTEN. And if I might just comment further, the methodology has not changed one bit.

Mr. GOODMAN. No, that is right.

Senator KASTEN. I mean, this is the way we have been doing it now for 3 or 4 years in a row, and you have dropped about 20 percent this year.

UNEP

Let me ask a question on UNEP.

I was concerned to learn that the U.N. Environmental group held a so-called senior advisors meeting in Paris early this year, to advise on the UNEP's approach to several urgent issues, including ozone depletion and others. And the information we have is that that meeting included a number of representatives from U.S. industry but no U.S. representatives from environmental groups.

Would you agree with me that the UNEP should adopt procedures to ensure balanced regional representation so if an industry group is represented from a particular part of the world or a particular country, that environmental groups should be given the opportunity to attend as well?

Mr. GOODMAN. That sounds reasonable. I do not know what the basis of the meeting was, what possible rules or regulations applied, but that certainly sounds reasonable.

Senator KASTEN. And I have two other questions on the UNEP that I would like to submit for the record, Mr. Chairman. And I thank you.

Senator NICKLES. No further questions.

Senator INOUYE. I thank you very much, sir. You were most helpful.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR INOUYE

GENERAL QUESTIONS ON THE UNITED NATIONS

SENATOR INOUYE: U.S. arrears on assessed contributions to the U.N. and its affiliated agencies have increased significantly since fiscal year 1986. What are the cumulative U.S. arrears owed to the U.N. and its affiliated agencies?

MR. GOODMAN: With payment of our full FY 1988 appropriation for the CIO account, U.S. arrearages to the UN and its affiliated agencies will total approximately $298 million. The arrearage total assumes payment of amounts set-aside for the UN and the FAO ($44 million and $25 million, respectively). Payment of the set-aside amounts is governed by legislation which requires a Presidential determination and report to the Congress that specified reform measures are being implemented. If the set-aside amounts are not paid, U.S. arrearages to the UN and its affiliated agencies would total approximately $367 million.

SENATOR INOUYE: Do the UN Agencies agree that these are the amounts in arrears, or do they have different figures?

MR. GOODMAN: Because of the timing differences in the organizations' billing cycles and the U.S. appropriation process, the balances due in the organizations' accounts will invariably differ from ours at a given time. The organizations maintain their accounts on a calendar year basis and normally render their assessment bills early in the year (usually in January). The U.S. maintains its accounts on a fiscal year basis, meaning that even in the best of times our calendar year assessments would not be paid until sometime after October 1. These timing differences have been exacerbated in Fiscal Year 1988 because of delays in the appropriations process and our subsequent payment of the final allocations.

SENATOR INOUYE: What percentage of the total contributions outstanding for each organization is represented by U.S. arrears?

MR. GOODMAN: We now have a final decision on the FY 1988 CIO reprogramming and are in the process of making the final payments on the agreed allocations (excluding UN and FAO set aside amounts). We would like to delay submission of the arrearage data (as a percentage of total contributions of each organization) until the payments are recorded in the organizations' accounts at prevailing exchange rates. This will enable us to reconcile our contributions with the quarterly status of contributions reports prepared by the organizations, which show the payments of all member states. The latest such reports are for the period ending March 31, 1988.

SENATOR INOUYE: the Administration's fiscal year 1989 request is $167 million short of the total requirement for full funding of the U.S. "Contributions to International Organizations" account. If the Congress does not provide for an increase in funding, how much will the U.S. be in arrears by the end of the fiscal year?

MR. GOODMAN: Assuming a final Contributions to International Organization (CIO) account appropriation of $490 million and exchange rate levels comparable to those of January, 1988, the cumulative shortfall in our requirements at the end of FY 1989 is estimated to be over $510 million. Taking account of FY 1989 legislative/policy withholdings of approximately $11 million (PLO/SWAPO, Law of the Sea, Tax Reimbursements), our cumulative arrearages at the end of FY 1989 would be over $521 million. This assumes payment of the UN and FAO set-aside amounts in FY 1988 ($44 million and $25 million, respectively) and payment of our full UN and FAO allocations requested in FY 1989 ($144 million and $25 million, respectively).

SENATOR INOUYE: In view of the current pattern of payments, is the U.S. likely to lose its vote in the United Nations and its agencies?

MR. GOODMAN: The U.S. could lose its vote in the UN General Assembly in 1990, the FAO in 1991, UNIDO in 1995; and the ILO and ICAO in 1996.

SENATOR INOUYE: How much of U.S. arrears are attributable to specifically legislated withholdings and how much to actions by the Administration?

MR. GOODMAN: Of the total $521 million cumulative U.S. arrears estimated through FY 1989, approximately $117.5 million is attributable to legislative withholdings and $62.9 million due to actions by the Administration. The balance of approximately $340.7 million in the U.S. cumulative arrears is attributable to appropriation shortfalls.

SENATOR INOUYE: What steps does the Administration propose for dealing with the rapidly increasing arrears?

MR. GOODMAN: We will be consulting with Members of Congress and the member states of international organizations on measures to address the significant arrearage problem. In accord with the Administration's commitment to the Budget Summit Compromise reached with the Congress late last year, we do not intend to seek supplemental funds to pay prior year arrearages or current year shortfalls. We are, however, giving serious consideration to seeking a possible reduction in the U.S. assessment level in the UN and other international organizations. Prior to taking a final decision on this significant measure, we will be consulting extensively with the Congress and the representatives of other member states.

SENATOR INOUYE: Please provide this Subcommittee with the results of audits taken over the last five years of the following international organizations. Included in your submission should be a detailed accounting of how these organizations utilized contributions made by the United States.

U.N. Voluntary Fund for Victims of Torture
U.N. Development Fund for Women
World Heritage Fund
U.N. Fellowship Program
UNIDO Investment Promotion Service

MR. GOODMAN: I have requested our missions to seek and provide the appropriate data necessary to respond to your query. As soon as the information is received, I will be pleased to forward same to this Subcommittee.

SENATOR INOUYE: Please provide a chart showing all member nations of the U.N. and what U.N. agencies have field offices in their countries.

MR. GOODMAN: I have requested our missions to seek and provide the necessary information requested for the chart. Upon receipt, I will be pleased to provide the requested chart.

SENATOR INOUYE: Please provide a companion list of individual office expenses in each country.

MR. GOODMAN: As soon as the information is collected and coordinated, I will be pleased to provide this Subcommittee with the list.

SENATOR INOUYE: Please provide a companion list of the outside contracting and consulting budgets of each agency.

MR. GOODMAN: The data has been requested. Upon receipt, we will prepare the companion list and forward it immediately to the Subcommittee.

SENATOR INOUYE: Please provide a comparative chart illustrating funds for agricultural development in Africa provided by United Nations agencies during the past five years.

MR. GOODMAN: I have asked the missions to obtain and provide me with the requested data. This information will be provided to the Subcommittee in the form of a comparative chart.

SENATOR INOUYE: Please provide a complete list of every budget disbursement from all U.S. government agencies to United Nations agencies or programs that are not accounted for as a line item in the normal appropriations process.

MR. GOODMAN: This information is provided to the President of the Senate and the Speaker of the House of Representatives in the Semi-Annual Report to Congress. A copy of the report, "Voluntary Contributions to International Organizations for the period April 1987 - September 1987 is attached:

International Organizations and Programs
Proportionate share withholdings for
SWAPO, PLO, CUBA, IRAN, LIBYA & KASTEN AMENDMENT

Organizations		FY 1981-82	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987
UN Development Program (UNDP)	1. Cuba	651,700	568,400	398,976	707,630	399,000	3,500,000 1/
	2. SWAPO	1,611	101,500	205,282	501	48,420	--
	3. Kasten	0	0	705,961	1,792,208	0	--
	4. Libya	0	0	0	433,192	95,000	--
	5. Iran	0	0	0	640,774	665,000	--
UN Children's Fund (UNICEF)	1. Cuba	18,728	11,502	0	42,715	226,400	500,000 1/
	2. SWAPO	5,726	8,329	35,746	19,313	13,350	--
	3. Kasten	0	0	152,169	366,238	0	--
	4. Iran	0	0	0	78,077	290,000	--
International Atomic Energy Agency (IAEA)	1. Cuba	244,416	64,145	0	71,587	442,400	191,910 1/
	2. Iran	0	0	0	16,523	41,400	--
	3. Libya	0	0	0	4,671	193,200	--
	4. Kasten	0	0	261,316	32,592	0	--
UN Environment Program (UNEP)	1. Cuba	10,990	37,812	16,674	1,994	0	--
	2. Kasten	0	0	58,388	152,339	0	--
Voluntary Cooperation Program (WMO/VCP)	1. Cuba	3,266	0	0	0	0	--
	2. SWAPO	3,556	0	0	0	0	--
FAO/World Food Program (WFP)	1. Cuba	65,300	0	0	0	0	--
Endangered Species (CITES)	1. Kasten	0	0	0	3,902	0	--
UN Institute for Namibia (UNIN)	2. SWAPO	0	1,726	5,598	0	0	--
UNESCO World Heritage Trust Fund	1. Cuba	0	0	0	9,060	0	--
	2. Kasten	0	0	0	537	0	--
UN Decade for Women (UNIFEM)	1. Cuba	0	0	0	0	0	19,000 1/
	2. Iran	0	0	0	0	0	--
	3. Libya	0	0	0	0	0	--
Total		1,005,293	793,414	1,840,110	4,373,853	2,414,170	4,210,910

1/Estimated withholding pending final adjustments to figures

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VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS

Period: April 1987 - September 1987

Agency: Department of State International Organization: UN Development Program

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
Economic Assistance for International Organizations and Programs	107.5	Financial Support	To provide technical, economic, and social development assistance to the least developed countries.

Agency: Department of State International Organization: Organization of American States

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
Economic Assistance for International Organizations and Programs	13.5	Financial Support	To support technical cooperation programs contributing to the economic and social development of Latin America and The Carribean.

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

Agency: Department of State International Organization: UN Environment Program

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
Economic Assistance for International Organizations and Programs	6.8	Financial Support	To promote and guide global, regional and national efforts to protect and maintain the environment.

Agency: Department of State International Organization: UN Fellowship

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
Economic Assistance for International Organizations and Programs	100	Financial Support	To promote administrative support services of federal agencies on behalf of FAO, ILO, ICAO and ITU-funded fellows in United States universities and training institutions.

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

Agency: Department of State International Organization: UN Capital Development Fund

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
Economic Assistance for International Organizations and Programs	861	Financial Support	To provide seed capital for small development projects.

Agency: Department of State International Organization: UN Decade for Women

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
Economic Assistance for International Organizations and Programs	219	Financial Support	To assist women in least developed countries become involved in mainstream development.

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

Agency: Department of State International Organization: UN Industrial Development Org. - Investment Promotion Service

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
Economic Assistance for International Organizations and Programs	150	Financial Support	To train officials of developing countries in ways to attract private investment capital.

Agency: Department of State International Organization: Multinational Force and Observers

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
Peacekeeping Operations	24.377	Financial Support	Operating expenses to maintain security in the Sinai and Israeli Border Areas.

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

Agency: Department of State International Organization: World Heritage Fund

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
Economic Assistance for International Organizations and Programs	219	Financial Support	Protection of cultural sites and natural areas.

Agency: Department of State International Organization: UN Children's Fund (UNICEF)

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
Economic Assistance for International Organizations and Programs	51.080	Financial Support	To encourage and assist the long-term humanitarian development and welfare of children in developing countries.

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

Agency: Department of State International Organization: International Atomic Energy Agency

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
Economic Assistance for International Organizations and Programs	19.5	Financial Support	To support IAEA's technical cooperation program and the strengthening of IAEA safeguard and other non-proliferation activities.

Exhibit
Bulletin No.

Agency: Department of State International Organization: Organization of American States

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
Salaries and Expenses	243	Financial support	Payment of Postage fees

Exhibit
Bulletin No.

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1, 1987 - September 30, 1987

Agency: Department of State International Organization: Pan American Health Organization

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
Salaries and Expenses	185	Financial support	Payment of Postage fees

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

Agency: DEPARTMENT OF STATE International Organization: INTERGOVERNMENTAL COMMITTEE FOR MIGRATION

Account Title	Amounts (Dollars in thousands)	Form	Purpose
MIGRATION AND REFUGEE ASSISTANCE	736	Financial support	Assistance for refugee programs in Latin America
MIGRATION AND REFUGEE ASSISTANCE	1,757	Financial support	Assistance for worldwide programs for refugees, immigrants and other migrants
MIGRATION AND REFUGEE ASSISTANCE	211	Financial support	Assistance for African return of talent program

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

Agency: DEPARTMENT OF STATE   International Organization: LEAGUE OF RED CROSS AND RED CRESCENT SOCIETIES

Account Title	Amounts (Dollars in thousands)	Form	Purpose
MIGRATION AND REFUGEE ASSISTANCE	200	Financial support	Assistance for Mozambican refugees in Malawi

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

Agency: DEPARTMENT OF STATE International Organization: UNITED NATIONS BORDER RELIEF OPERATION

Account Title	Amounts (Dollars in thousands)	Form	Purpose
MIGRATION AND REFUGEE ASSISTANCE	9,800	Financial support	Assistance for refugees in Indochina

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

Agency: DEPARTMENT OF STATE International Organization: UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES

Account Title	Amounts (Dollars in thousands)	Form	Purpose
MIGRATION AND REFUGEE ASSISTANCE	6,000	Financial support	Assistance for refugees for Southeast Asia
MIGRATION AND REFUGEE ASSISTANCE	10,480	Financial support	Assistance for refugees for Africa
MIGRATION AND REFUGEE ASSISTANCE	2,893	Financial support	Assistance for refugees for Near East
MIGRATION AND REFUGEE ASSISTANCE	913	Financial support	Assistance for refugees for Latin America
U.S. EMERGENCY REFUGEE AND MIGRATION ASSISTANCE FUND, EXECUTIVE (Transfer to State)	1,250	Financial support	Emergency support for Ethiopian and Mozambican refugees

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1937 - September 1967

Agency: DEPARTMENT OF STATE International Organization: UNITED NATIONS RELIEF AND WORKS AGENCY

Account Title	Amounts (Dollars in thousands)	Form	Purpose
U.S. EMERGENCY REFUGEE AND MIGRATION ASSISTANCE FUND, EXECUTIVE (Transfer to State)	3,000	Financial support	Emergency support for Palestinian refugees in the Near East

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period; April 1, 1987 - September 30, 1987

Agency: Department of State	International Organization: United Nations Fund for Drug Abuse Control		
(1) Account Title	(2) Amounts (000)	(3) Form	(4) Purpose
International Narcotics Control (Bureau for International Narcotics Matters)	800	Financial Support	International Narcotics Control
As Above	International Organization: International Social Services/American Branch		
	40	Financial Support	Attendance of NGO representatives at ICDAIT Conference, Vienna
As Above	International Organization: Colombo Plan Drug Advisory Program		
	100	Financial Support	Internationl Narcotics Control

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

Agency: DEPARTMENT OF STATE International Organization: INTERNATIONAL COMMITTEE FOR THE RED CROSS

Account Title	Amounts (Dollars in thousands)	Form	Purpose
MIGRATION AND REFUGEE ASSISTANCE	1,000	Financial support	Assistance for Afghan conflict victims in Pakistan
MIGRATION AND REFUGEE ASSISTANCE	1,500	Financial support	Assistance for refugees in Indochina
MIGRATION AND REFUGEE ASSISTANCE	14,000	Financial support	Assistance for refugees for Africa
MIGRATION AND REFUGEE ASSISTANCE	3,650	Financial support	Assistance for refugees in Latin America
MIGRATION AND REFUGEE ASSISTANCE	4,500	Financial support	Assistance for ordinary budget expenses
U.S. EMERGENCY REFUGEE AND MIGRATION ASSISTANCE FUND, EXECUTIVE (Transfer to State)	3,000	Financial support	Emergency support for refugees in Africa
U.S. EMERGENCY REFUGEE AND MIGRATION ASSISTANCE FUND, EXECUTIVE (Transfer to State)	1,250	Financial support	Emergency support for refugees in Lebanon

Bulletin No. 87-11

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April - September 1987

Agency: U.S. Nuclear Regulatory Commission International Organization: International Atomic Energy Agency

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
31X0200 (Salaries & Expenses-NRC)	80.00	Payment of salary	to support cost-free expert James Joosten
31X0200 (Salaries & Expenses-NRC)	121.833	Payment of salary	to support cost-free expert Al Kenneke

Attachment

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

1. Agency: Department of Labor International Organization: Israeli Ministry of Labor and Social Affairs

(1) Account Title	(2) Amounts (Dollars in Thousands)	(3) Form	(4) Purpose
Office of the Secretary/ Office of Human Development Services/D/HHS	40	Financial Support	Cooperation in the Field of Labor

2. Agency: Department of Labor International Organization: Organization for Economic Cooperation and Development

(1) Account Title	(2) Amounts (Dollars in Thousands)	(3) Form	(4) Purpose
Office of the Assistant Secretary for Policy	100	Grant	Support for Trade and Market policies project

Exhibit
Bulletin No. 87-11

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
PERIOD: April 1987 - September 1987

Agency: Consumer Product Safety Commission

International Organization: Product Safety Branch Consumer and Corporate Affairs (Canada)

(1) Account Title	(2) Amount (Dollars in Thousands)	(3) Form	(4) Purpose
Salaries and Expenses	$.4	Services	Speak on Consumer Product Safety Issues

Exhibit 1
Bulletin No. 87-11

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

Agency: Department of the Treasury   International Organization: Organization of American States

Account Title	Amount ($000)	Form	Purpose
Salaries and Expenses U.S. Customs Service	29	Service	Facilitate Customs matters in this hemisphere.

Exhibit 2
Bulletin No. 87-11

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

Agency: Department of the Treasury

International Organization: Inter-American Center of Tax Administrators (CIAT)

Account Title	Amount ($000)	Form	Purpose
Salaries and Expenses Internal Revenue Service	1.0	Services	Participation in CIAT Strategic Planning Work Group meeting.
Examinations and Appeals Internal Revenue Service	150.7	Financial Support	Annual membership contribution for FY 1988
Examinations and Appeals Internal Revenue Service	3.7	Services	Participation in CIAT Strategic Planning Work Group meeting and development of topics for General Assembly.

Exhibit 3
Bulletin No. 87-11

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

Agency: Department of the Treasury International Organization: International Criminal Police Organization

Account Title	Amount ($000)	Form	Purpose
Bureau of Engraving and Printing	15	Financial Support	Support cost of 7th International Counterfeit Currency Conference.

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS

PERIOD: APRIL 1987 - SEPTEMBER 1987

AGENCY: FEDERAL BUREAU OF INVESTIGATION INTERNATIONAL ORGANIZATION: INTERPOL, ST. CLOUD, FRANCE

ACCOUNT TITLE	AMOUNTS (Dollars in thousands)	FORM	PURPOSE
Federal Bureau of Investigation	58	Services	Chief Anti-Terrorism Group
Federal Bureau of Investigation	25	Financial Support	Operational Cost

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

Agency: Immigration and Naturalization Service International Organization: INTERPOL

(1) **Account Title**	(2) **Amounts** (Dollars in thousands)	(3) **Form**	(4) **Purpose**
Salaries and expenses	$68	Services	INS personnel assigned to INTERPOL U.S. National Central Bureau (USNCB)
Interagency agreement	$15	Financial support	

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 - September 1987

Agency: U.S. Marshals Service **International Organization:** INTERPOL

Account Title	Amounts (Dollars in thousands)	Form	Purpose
Salaries and expenses, U.S. Marshals Service	$28	Services	Liaison with INTERPOL Headquarters, Paris

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1, 1987 - September 30, 1987

Agency: Drug Enforcement Administration

International Organization: Interpol

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
Salaries and Expenses, Drug Enforcement Administration	$95	Personnel and associated expenses	Provide expertise on drug-related matters

REPLACEMENT PAGE FOR PAGE 1 OF NOVEMBER 16, 1987

EPA REPORT

SUMMARY OF EPA'S VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
(dollars in thousands)

I. Time Period: April 1, 1987 - September 30, 1987

II.

International Organizations	Amount
World Health Organization (WHO)	68.8
WHO/International Programme on Chemical Safety (IPCS)	308
World Meteorological Organization (WMO)	15
Other United Nations Agencies	7
Organization for Economic Cooperation and Development (OECD)	8
Total:	406.8

III. EPA Offices:

Office of Research and Development	302.8
Office of Pesticides and Toxic Substances	92
Office of Air and Radiation	2
Office of Policy, Planning, and Evaluation	1
Office of Water	3
Office of Administration and Resources Management	5
Total:	406.8

Voluntary Contributions to International Organizations
Period: April 1, 1987 - September 30, 1987

Agency: Environmental Protection Agency International Organization: WHO

Account Title	Amounts	Form	Purpose
	(dollars in thousands)		
Office of Research and Development Office of Acid Deposition, Environmental Monitoring, and Quality Assurance (Hazardous Air Pollution and Acid Rain Accounts)	23.8	Funds	Financial support of WHO/UNEP Human Exposure Project
Office of Research and Development Office of Acid Deposition, Environmental Monitoring, and Quality Assurance RTP, North Carolina (Salaries and Expenses, and Research and Development Accounts)	25	Services	Process and summarize data from WHO/UNEP Urban Air Pollution Monitoring Stations Worldwide
Office of Research and Development Office of Acid Deposition, Environmental Monitoring, and Quality Assurance Cincinnati, Ohio (Salaries and Expenses Account)	1	Services	Provide assistance on Quality Assurance in WHO/UNEP Fresh Water Monitoring Stations Worldwide

Voluntary Contributions to International Organizations
Period: April 1, 1987 - September 30, 1987

Agency: Environmental Protection Agency International Organization: WHO

Account Title	Amounts (dollars in thousands)	Form	Purpose
Office of Research and Development Office of Acid Deposition, Environmental Monitoring, and Quality Assurance Las Vegas, Nevada (Salaries and Expenses Account)	2	Services	Expert detail to WHO on Human Exposure to Pollution
Office of Research and Development Office of Acid Deposition, Environmental Monitoring, and Quality Assurance	1	Services	Expert participant in WHO meeting on Human Exposure to Pollution
Office of Research and Development Office of Acid Deposition, Environmental Monitoring, and Quality Assurance RTP, North Carolina (Salaries and Expenses Account)	1	Services	Expert participant in WHO meeting on Indoor Pollution
Office of Research and Development Office of Environmental Engineering and Technology Demonstration Cincinnati, Ohio (Salaries and Expenses Account)	2	Services	Expert adviser thru WHO/PAHO on Environmental Protection in Brazil

Voluntary Contributions to International Organizations
Period: April 1, 1987 - September 30, 1987

Agency: Environmental Protection Agency International Organization: WHO

Account Title	Amounts	Form	Purpose
	(dollars in thousands)		
Office of Research and Development Office of Health Research RTP, North Carolina (Salaries and Expenses Account)	1	Services	Expert participant in WHO meeting on Health Effects of Complex Mixtures
Office of Research and Development Office of Health and Environmental Assessment (Salaries and Expenses, Account)	1	Services	Expert participant in WHO meeting on Human Reproduction and Toxic Chemicals
Office of Air and Radiation Office of Radiation Programs (Salaries and Expenses Account)	1	Services	Expert participant in WHO meeting on Radon
Office of Research and Development Office of Environmental Engineering and Technology Demonstration Cincinnati, Ohio (Salaries and Expenses Account)	2	Services	Expert adviser thru WHO/PAHO on Environmental Protection in Brazil

Voluntary Contributions to International Organizations
Period: April 1, 1987 - September 30, 1987

Agency: Environmental Protection Agency International Organization: WHO

Account Title	Amounts (dollars in thousands)	Form	Purpose
Office of Air and Radiation Office of Radiation Programs (Salaries and Expenses Account)	1	Services	WHO Experts meeting on Emergency Response to Nuclear Accidents
Office of Water Office of Drinking Water (Salaries and Expenses, Account)	1	Services	WHO Experts meeting on Drinking Water and Health Protection
Office of Research and Development Cincinnati, Ohio (Salaries and Expenses Account)	1	Services	WHO/PAHO expert assignment on Pesticides to assist the Bahamas
Office of Research and Development Office of Health and Environmental Assessment RTP, North Carolina (Salaries and Expenses Account)	1	Services	Expert participation in WHO/PAHO meeting on Air Pollution
Office of Research and Development Cincinnati, Ohio (Salaries and Expenses Account)	4	Services	Expert adviser to WHO and World Bank on hazardous waste disposal

Voluntary Contributions to International Organizations
Period: April 1, 1987 - September 30, 1987

Agency: Environmental Protection Agency International Organization: WHO

Account Title	Amounts	Form	Purpose
	(dollars in thousands)		
Office of Research and Development Office of Acid Deposition, Environmental Monitoring, and Quality Assurance Las Vegas, Nevada (Salaries and Expenses Account)	2	Services	Expert detail to WHO on Human Exposure to Pollution
Office of Research and Development Office of Acid Deposition, Environmental Monitoring, and Quality Assurance	1	Services	Expert participant in WHO meeting on Human Exposure to Pollution
Office of Research and Development Office of Acid Deposition, Environmental Monitoring, and Quality Assurance RTP, North Carolina (Salaries and Expenses Account)	1	Services	Expert participant in WHO meeting on Indoor Pollution

Voluntary Contributions to International Organizations
Period: April 1, 1987 - September 30, 1987

Agency: Environmental Protection Agency International Organization: WHO/IPCS

Account Title	Amounts (dollars in thousands)	Form	Purpose
Office of Pesticides and Toxic Substances Office of Toxic Substances (Chemical Testing Account)	44	Funds	Financial support of UN/IPCS
Office of Pesticides and Toxic Substances (New Chemicals Review Account)	6	Funds	Financial support of UN/IPCS
Office of Pesticides and Toxic Substances Office of Pesticides Programs (Generic Chemicals Review Account)	40	Funds	Financial support of UN/IPCS
Office of Research and Development Office of Health Research (Pesticides Account)	100	Funds	Financial support of UN/IPCS
Office of Research and Development Office of Health and Environmental Assessment (Air Account)	50	Funds	Financial support of UN/IPCS

Voluntary Contributions to International Organizations
Period: April 1, 1987 - September 30, 1987

Agency: Environmental Protection Agency International Organization: WHO/IPCS

Account Title	Amounts (dollars in thousands)	Form	Purpose
Office of Pesticides and Toxic Substances Office of Pesticide Programs (Salaries and Expenses Account)	2	Services	Expert advisers in IPCS meeting on Pesticid Safety
Office of Research and Development Office of Health Research RTP, North Carolina (Salaries and Expenses Account)	1	Services	Expert participant in IPCS meeting on Chemical Safety
Office of Research and Development Office of Health Research RTP, North Carolina (Salaries and Expenses Account)	1	Services	Expert participant in WHO/IPCS meeting on Complex Mixtures
Office of Pesticides and Toxic Substances Office of Toxic Substances (Salaries and Expenses Account)	1	Services	Expert participant in IPCS meeting on Hazardou Assessment

Voluntary Contributions to International Organizations
Period: April 1, 1987 - September 30, 1987

Agency: Environmental Protection Agency International Organization: WMO

Account Title	Amounts (dollars in thousands)	Form	Purpose
Office of Research and Development Office of Acid Deposition, Environmental Monitoring, and Quality Assurance RTP, North Carolina Salaries and Expenses, and Research and Development Accounts)	15	Services	process and summarize worldwide atmospheric chemistry data under WMO/UNEP GEMS Background Air Monitoring Program

Voluntary Contributions to International Organizations
Period: April 1, 1987 - September 30, 1987

Agency: Environmental Protection Agency International Organization: Other United Nations

Account Title	Amounts (dollars in thousands)	Form	Purpose
Office of Research and Development Office of Environmental Processes and Effects Research (Salaries and Expenses Account)	4	Services	Expert adviser thru UNDP to PRC on Environmental Protection
Office of Water Office of Water Enforcement and Permits (Salaries and Expenses Account)	3	Services	Expert adviser thru UNDF to PRC on Wastewater Treatment

Voluntary Contributions to International Organizations
Period: April 1, 1987 - September 30, 1987

Agency: Environmental Protection Agency International Organization: OECD

Account Title	Amounts	Form	Purpose
	(dollars in thousands)		
Office of Administration and Resources Management (Salaries and Expenses Account)	5	Services	Expert adviser to OECD on Environmental Guidelines for International Banks
Office of Research and Development Office of Regulatory Support and Scientific Analysis (Salaries and Expenses Account)	2	Services	Expert adviser to OECD on Protection of Flora
Office of Policy, Planning, and Evaluation Office of Policy Analysis (Salaries and Expenses Account)	1	Services	Expert Adviser to OECD on Agriculture and Environmental Protection

Voluntary Contributions to International Organizations
Period: April 1, 1987 - September 30, 1987

Agency: Environmental Protection Agency International Organization: WHO/IPCS

Account Title	Amounts (dollars in thousands)	Form	Purpose
Office of Research and Development (Toxic Substances and Ground Water Accounts)	50	Funds	Financial support of IPCS and the Scientific Group on Methods for Safety Evaluation of Chemicals

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April - September 1987

Agency: U.S. Geological Survey

International Organization: UN--Committee for Coordination of Joint Prospecting for Mineral Resources in South Pacific Offshore Areas (CCOP/SOPAC)

Account Title	Amount (Dollars in thousands)	Form	Purpose
Geologic Division	$16.9	Services	The USGS provided a marine geologist to CCOP/SOPAC in Fiji on a long-term basis to coordinate USGS activities with programs in the SOPAC area, assist in developing earth science capabilities, and strengthen the U.S. role in the SOPAC region.
Geologic Division	5.0	Services	A USGS marine geologist participated in a cruise of the French research vessel JEAN CHARCOT in waters around New Caledonia, Vanuatu, and the Solomon Islands to identify a possible Ocean Drilling Program drilling leg in the Central New Hebrides Arc.
Geologic Division	6.6	Services	A USGS geologist participated in a CCOP/SOPAC-sponsored phosphate drilling program in the Cook Islands.

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April - September 1987

Agency: U.S. Geological Survey

International Organization: International Atomic Energy Agency (IAEA)

Account Title	Amount (Dollars in thousands)	Form	Purpose
Geologic Division	$ 1.0	Services	A USGS geophysicist assisted IAEA in the preparation of a manual on the use of airborne gamma-ray surveys to define the natural radiation environment.
	2.6	Services	A USGS specialist participated in a meeting in Saskatoon, Canada, to finish preparation of a manuscript on "Methods to Estimate Undiscovered Uranium Resources," and presented a paper on the similarity of the geology of uranium deposits in North and South America.

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April - September 1987

Agency: U.S. Geological Survey

International Organization: United Nations Educational, Scientific and Cultural Organization (UNESCO)

Account Title	Amount (Dollars in thousands)	Form	Purpose
Geologic Division	$ 1.4	Services	A USGS marine geologist participated in a UNESCO-sponsored colloquim on oceanography held in Madagascar. The purpose of the meeting was to coordinate scientific research leading to development in the southwest Indian Ocean, in recognition of the energy, mineral, and living resource potential of that region.
Geologic Division	3.6	Services	A USGS geophysicist served as a moderator of a training workshop on "Evaluation of Earthquake Hazards and Risk" held in Jordan; visited UNESCO office in Paris to discuss a training program for the Arab World and the International Decade of Natural Hazard Reduction for 1990-2000.
Water Resources Division	2.7	Services	A USGS research hydrologist chaired a session on a recently-completed UNESCO lake-eutropication project and presented a paper on the limnology of reservoirs in semi-arid southwestern U.S. at an international conference on Reservoir Limnology and Water Quality held in Czechoslovakia.

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April - September 1987

Agency: U.S. Geological Survey

International Organization: United Nations Development Program (UNDP)

Account Title	Amount (Dollars in thousands)	Form	Purpose
Geologic Division	$ 3.5	Services	A USGS structural engineer presented an invited lecture on "Optimal Filtering and Stochastic Approximation Techniques for Modeling and Identification in Earthquake Engineering" at a regional conference on Earthquake Engineering held in Istanbul, Turkey.
Geologic Division	3.4	Services	A USGS scientist participated in a UNDP geologic review mission in Mozambique intended to assist the Ministry of Mineral Resources explore, evaluate, and manage the mineral resources of Mozambique.

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April - September 1987

Agency: U.S. Geological Survey

International Organization: United Nations Environment Program (UNEP)

Account Title	Amount	Form	Purpose
Water Resources Division	$ 3.2	Services	Two USGS hydrologists presented invited papers at a UNEP workshop on "Carbon and Nutrient Transport in Lakes and Estuaries" held in the Netherlands.

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April -September 1987

Agency: U.S. Geological Survey

International Organization: North Atlantic Treaty Organization (NATO)

Account Title	Amount (Dollars in thousands)	Form	Purpose
Water Resources Division	$ 4.1	Services	Two USGS hydrologists were invited lecturers at a NATO Advanced Research Workshop on "Advances in Analytical and Numerical Ground-Water Flow and Quality Modeling" held in Lisbon, Portugal. The objectives of the workshop were to review the state of the art of ground-water modeling and to discuss the recent trends, the new approaches, and the expected future developments and needs, including mass transport, organic pollution, fractured aquifers, and low permeability formations.

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April - September 1987

Agency: U.S. Geological Survey

International Organization: World Meteorological Organization (WMO)

Account Title	Amount (Dollars in thousands)	Form	Purpose
Water Resources Division	$ 2.9	Services	A USGS hydrologist was an invited lecturer at a WMO-sponsored workshop on Telemetry and Data Transmission for Hydrology held in Toulouse, France, and also participated as a rapporteur on electronic instrumentation in another WMO-sponsored Working Group meeting on instruments and methods of observation held in Geneva.

VOLUNTARY CONTRIBUTINS TO INTERNATIONAL ORGANIZATIONS
Period: April - September 1987

Agency: U.S. Geological Survey

International Organization: International Council of Scientific Unions (ICSU)

Account Title	Amount (Dollars in thousands)	Form	Purpose
Water Resources Division	$ 2.6	Services	A USGS geologist chaired a session on "Geological Variations in Carbon Dioxide and the Carbon Cycle" of the ICSU Scientific Committee on Oceanic Research meeting in Ottawa, Canada.

VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
Period: April 1987 through September 1987

Agency: Bureau of Land Management

International Organization:

(1) Account Title	(2) Amounts (Dollars in thousands)	(3) Form	(4) Purpose
N/A	N/A	N/A	N/A

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Voluntary Contributions to International Organizations, OMB Bulletin #87-11
Period: May 1 - September 30, 1987

International Organization: African Development Bank

Account Title	Amount ($000)	Form	Purpose
Agriculture, Rural Development and Nutrition	10	Financial Support	Strengthen the institutional capacity of the bank
Selected Development Activies	591	Financial Support	Strengthen the institutional capacity of the bank
	601		

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Voluntary Contributions to International Organizations, OMB Bulletin # 87-11
Period: May 1 - September 30, 1987

International Organization: International Fund for Northern Ireland and Ireland

Account Title	Amount ($000)	Form	Purpose
Economic Support Fund	25,000	Financial Support	To stimulate private investment & enterprise

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Voluntary Contributions to International Organizations, OMB Bulletin #87-11
Period: May 1 - September 30, 1987

International Organization: Association of S.E. Asian Nations (ASEAN)

Account Title	Amount ($000)	Form	Purpose
Agriculture, Rural Development and Nutrition	1,133	Financial Support	Training and technological transfer in the field of energy agriculture and health
Selected Development Activies	155	Financial Support	Training and technological transfer in the field of energy agriculture and health
	1,288		

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Voluntary Contributions to International Organizations, OMB Bulletin #87-11
Period: May 1 - September 30, 1987

International Organization: International Agriculture Research Centers

Account Title	Amount ($000)	Form	Purpose
Agriculture, Rural Development and Nutrition	18,211	Financial Support	Provide budget support for the centers

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Voluntary Contributions to International Organizations, OMB Bulletin #87-11
Period: May 1 - September 30, 1987

International Organization: European Economic Community (EEC)

Account Title	Amount ($000)	Form	Purpose
International Disaster Assistance	600	Financial Assistance	Disaster Assistance

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Voluntary Contributions to International Organizations, OMB Bulletin #87-11
Period: May 1 - September 30, 1987

International Organization: Food & Agriculture Organization, United Nations (FAO)

Account Title	Amount ($000)	Form	Purpose
International Disaster Assistance	168	Financial Assistance	Disaster Assistance

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Voluntary Contributions to International Organizations, OMB Bulletin #87-11
Period: May 1 - September 30, 1987

International Organization: Pan American Health Organization (PAHO)

Account Title	**Amount ($000)**	**Form**	**Purpose**
International Disaster Assistance	345	Financial Assistance	Disaster Assistance

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Voluntary Contributions to International Organizations, OMB Bulletin #87-11
Period: May 1 - September 30, 1987

International Organization: Organization of American States (OAS)

Account Title	**Amount ($000)**	**Form**	**Purpose**
International Disaster Assistance	145	Financial Assistance	Disaster Assistance

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Voluntary Contributions to International Organizations, OMB Bulletin #87-11
Period: May 1 - September 30, 1987

International Organization: UN International Children's Education Fund (UNICEF)

Account Title	Amount ($000)	Form	Purpose
Child Survial Fund	459	Financial Support	Immunization and other child survival programs in four to six countries
International Disaster Assistance	250	Financial Support	Disaster Assistance
	709		

UNITED NATIONS DEVELOPMENT PROGRAM (UNDP)

SENATOR INOUYE: Please provide and accounting of all support provided to insurgency groups by international organizations to which the United States is a contributing member?

MR. GOODMAN: The attachment provides an accounting of funds withheld from U.S. contributions to International Organizations and Programs which benefit organizations and countries subject to legislative restrictions.

DOLLAR EXCHANGE RATE DECLINE

SENATOR INOUYE: What has been the effect of the dramatic decline in the value of the dollar on United Nations operations and commodity purchases?

MR. GOODMAN: The UN's 1988/89 program budget as approved ($1.769 billion) reflects adjustments of approximately $109 million to make up for the decline in the U.S. dollar as compared to the original draft. The adjustments are based on a recosting of the program budget sections using operational exchange rates effective December 1, 1987. The most significant adjustment occurs for UN operations based in Geneva and Vienna where the decline of the dollar against the Swiss Franc and Austrian Shilling accounts for over $95 million of the total $109 million exchange rate adjustment. With regard to the impact of the dollar's decline on UN commodity purchases, we have requested this information from the UN Secretariat through USUN and will submit it to you when received.

SENATOR INOUYE: Have the U.N. authorities found it necessary to make major changes in their FY 1988 budget allocations to account for this dollar exchange rate decline? If so, what are these changes?

MR. GOODMAN: The UN will be recosting the individual budget expenditure sections of the 1988/89 program budget at the end of the year to reflect prevailing exchange rates as well as inflation. Any reallocations due to either of these recosting factors (or, perhaps, other factors such as program policy decisions or management efficiencies) will be made at that time.

U.N. PROCEDURAL AND BUDGETARY REFORM

SENATOR INOUYE: During our hearings last year Ambassador Walters stated: "The United States achieved a major success at the 41st General Assembly by gaining approval of a major program of administrative and budgetary reform." (p. 145). Could you highlight for us the nature of this reform and provide an assessment of how well it has been implemented over the past year?

MR. GOODMAN: The key reform measure adopted under UN Resolution 41/213 concerns a new program budget process which gives major donors, including the United States, a greater say in how the UN spends its money. The new program budget process, with a key role entrusted to the UN's Committee for Program and Coordination (CPC), calls for establishing an overall budget level as guidance for the Secretary General in drafting the program budget; it calls for an indication of program priorities within the overall budget level; it provides for the establishment of a contingency fund to protect the integrity of the budget from constant add-ons; and, most importantly, it requires that the program budget be based on a consensus decision-making process. Full implementation of the budgetary reforms is scheduled for the 1990-91 biennium. UN Resolution 41/213 also called for several administrative reforms recommended by the Group of 18 (The Group of High-Level Intergovernmental Experts to Review the Efficiency of the Administration and Financial Functions of the UN). Some of the significant Group of 18 reforms include the streamlining of the Secretariat organizational structure; significant reductions in the number of staff positions in the UN regular budget over a three year period; substantial reductions in the amounts spent on consultants, official travel and conferences and meetings.

Progress has already been achieved in reducing the number of staff positions in the UN Secretariat; more than half of the reductions targeted for support staff have already been achieved. The Secretary General has also reorganized major parts cf the UN Secretariat in the political and administrative areas to improve efficiency. An organizational restructuring of the public information area has also been approved. Progress on these and other administrative reforms notwithstanding, we were disappointed at the lack of success in accelerating implementation of the budgetary reforms at last autumn's session of the UN General Assembly. The CPC was unwilling to recommend by consensus an overall budget level and a contingency fund for the 1988/89 biennium. The CPC was also expanded from 21 to 34 members, which could make more difficult the consensus decision-making process in deciding program budget levelsand priorities. Although the 1988/89 UN program budget approved last December is, for the first time, lower in real terms than a preceding program budget, the U.S. abstained on its vote because it was not the product of the new consensus based budget process.

The CPC is about to begin preparatory work on the 1990/91 program budget outline for recommendation to the General Assembly this fall. Since 1990/91 represents the first biennium for full implementation of the budgetary reforms, upcoming actions by the CPC and the General Assembly will provide the first definitive test for the Resolution 41/213 program budget reforms.

SENATOR INOUYE: What additional or procedural reforms should the United States promote in the General Assembly, at least on budgetary issues?

MR. GOODMAN: The Resolution 41/213 program budget reforms represent a significant milestone in giving major donors a greater say in the formulation and execution of the UN program budget. Rather than promoting additional reforms on budgetary issues, our emphasis at this time is on full implementation of the 41/213 reforms as originally intended.

UNDP AUDIT REPORT

SENATOR INOUYE: UNDP was audited in late 1987 by a board of UN auditors. These auditors discovered serious irregularities in accounting procedures, inventory control procedures and expense controls. What steps has UNDP taken to put its house in better financial order?

MR. GOODMAN: The audit in question concerned the United Nations Development Program's (UNDP) financial statements for the year ending December 31, 1986. The UN's Board of Auditors reviewed these statements during 1987 and issued its report to the 42nd UN General Assembly where it was reviewed by the UN General Assembly's Fifth (Administrative and Budgetary) Committee. The audit report on UNDP (UN document A/42/5/Add.1) revealed shortcomings in the accounting procedures and budgetary control mechanisms. For these reasons, the Board of Auditors qualified its opinion on the UNDP's financial statements. However, the Board found no evidence that these shortcomings resulted in mismanagement or fraud.

The qualification in the audit opinion was based largely upon UNDP's established financial procedures for auditing other agencies and governments which implement UNDP projects. The auditors concluded that these procedures introduced uncertainties affecting a substantial portion of reported expenditures and obligations. Under current procedures for the preparation of its annual financial statements UNDP relies, to a great extent, on unaudited financial statements received from executing agencies. These statements are examined by the external auditors of the executing agencies which provide UNDP with the appropriate audit certificates. However, the audited statements of executing agencies are generally not available until after UNDP has submitted its financial statements to the UN Board of Auditors for examination. In the case of government-executed projects, which account for a small share of total UNDP projected expenditure, the governments themselves are responsible for auditing these accounts and providing UNDP with certified statements.

The UNDP administration met with the external auditors in November, 1987 to discuss these and other issues. The auditors agreed with UNDP's position that to require the executing agencies to provide annual audited financial statements in a more timely manner would, in many cases, entail changes in financial regulations and, for those organizations with biennial reporting periods, additional audit costs. The Board has contacted the executing agencies and has requested the agencies to report on measures either taken or under consideration to provide UNDP with certified audited statements on a more timely basis. The UNDP Administrator will present this issue to the June, 1988 session of the UNDP Governing Council for its consideration. In the case of government executed projects, UNDP is committed to taking whatever steps are necessary to resolve the deficiencies in the auditing of financial accounts of these projects. In response to the auditors' findings, the Administrator plans to submit a proposal to the Governing Council to revise the financial reporting and accounting system for government executed projects.

Regarding inventory control procedures, the auditors noted that UNDP appeared unable to determine the value of non-expendable property other than land and buildings. UNDP agreed that existing procedures were not sufficiently effective to provide comprehensive information on non-expendable property. Since the time of the audit it has completed a comprehensive study of the headquarters inventory control system and is in the process of setting up revised procedures for the proper control of inventories. A new system will be introduced in the field requiring each office to keep a record of its inventory and to report all changes to headquarters. Inventory records in all locations are in the process of being computerized.

The audit of the 1986 accounts revealed deficiencies in the certifying function which resulted in overexpenditures against allotments in some field offices and units at headquarters. The

UNDP administration noted that allotments, as opposed to appropriations, are an internal mechanism for authorizing and controlling expenditure. An overexpenditure against an allotment was not a transgression of the financial regulations and legislative authority as the auditors had claimed. Nevertheless, UNDP agreed there was room for improvement in the area of budgetary control and has taken a number of specific steps in this regard.

The audit report on UNDP, as well as other UN organizations and programs, generated considerable discussion at the 42nd UNGA. The General Assembly approved without a vote Resolution 42/206 which endorsed the observations and recommendations of the Board of Auditors. This resolution requires the executive heads of the audited organizations and programs to address the problems identified by the auditors. The resolution emphasizes the need for follow-up by the Board, the governing bodies of the audited agencies and the General Assembly to ensure that corrective action has been taken. The UNDP audit report for 1986 will be reviewed at the June 1988 session of the UNDP Governing Council. The UNDP audit report for 1987, which has not been issued to member states, will be submitted at the 43rd UNGA. The U.S. delegations to the UNDP Governing Council and the 43rd UNGA will assess the progress made by UNDP in addressing the problems identified by the auditors.

UNITED NATIONS ENVIRONMENT PROGRAM (UNEP)

SENATOR INOUYE: What actions can the United States fruitfully urge on the multilateral financial institutions to advance sustainable-development goals?

MR. GOODMAN: The U.S. Government has and should continue to stress the importance of the role of environmental issues in the consideration of development loans.

SENATOR INOUYE: I understand that UNEP Executive Director Tolba has proposed that UNEP draw up international legal standards for the environment, at both the national and international level. What is the U.S. position on this kind of activity and is this within UNEP's authority?

MR. GOODMAN: The initiation of work on an international agreement, while within the purview of UNEP, is a project which must be approved by UNEP's Governing Council. The issues affecting the global environment are many and varied and cannot all be appropriately addressed by international legal standards. The U.S. Government recommends further consider- ation of the information available and what is required before work is began on an international agreement.

CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES (CITES)

SENATOR INOUYE: What is the Administration's position on the goals and objectives of the Convention for International Trade in Endangered Flora and Fauna (CITES)?

MR. GOODMAN: The goals and objectives are clearly worthwhile.

SENATOR INOUYE: Is the Administration prepared to give its full backing to the implementation of the CITES Treaty?

MR. GOODMAN: Although the U.S. Government does have some concerns with the CITES Treaty, it does support its implementation.

SENATOR INOUYE: What is the Administration currently doing to assist in the preservation of the world's fauna and flora?

MR. GOODMAN: The U.S. Government is actively participating in global agreements on this issue, such as the Protocol on Specially Protected Areas of Wildlife (SPAW). The U.S. Government contributed $15,000 to the implementation of this Protocol this year.

SENATOR INOUYE: Given the decline of the U.S. dollar to half its value vis-a-vis the Swiss franc between 1985 and 1987, and that most of CITES expenditures are in Switzerland, why did the Administration fail to request an increase in the annual U.S. contribution so as to pay its fair share of the increase in costs?

MR. GOODMAN: The request of the Administration is an amount that CITES, at its current stage of implementation, can effectively use. The Administration is aware of the fluctuation in the rate of exchange between the dollar and the Swiss franc and has taken this into consideration in its request.

SENATOR INOUYE: Although the U.S has been the largest contributor to CITES over the years, and granted that our contributions have been designated as voluntary, is not the Administration concerned that our arrearage already is second only to that of the U.S.S.R., which has never contributed? Indeed, no other western developed country which is party to CITES is behind in its payments.

MR. GOODMAN: The Administration is concerned with U.S. arrearages to a number of international organizations, including CITES. We have and will continue to provide the maximum funding within the existing budget constraints.

SENATOR INOUYE: What is the effect of the coming into force of the "financial amendment" to CITES on the U.S. contribution?

MR. GOODMAN: The effect of the financial amendment of CITES will be to provide a suggested funding target to member states, including the United States.

UNITED NATIONS INTERNATIONAL DEVELOPMENT PROGRAM (UNIDO)

SENATOR INOUYE: What opportunities has UNIDO provided for the U.S.

MR. GOODMAN: UNIDO has provided a unique forum, within the UN system, for the United States to promote the role of the private sector in industrial development. In addition, through its regular budget contribution to the organization, the United States has the opportunity to support activities which generally complement U.S. development priorities, including small and medium-scale enterprise development and human resource development. Through UNIDO investment promotion activities, U.S. investors can learn about investment and joint-venture opportunities in the developing world. And finally, through the stimulation of local economies which results from industrial development, UNIDO serves to open potential markets for U.S. goods and services.

SENATOR INOUYE: What results has UNIDO produced in the last four years?

MR. GOODMAN: In the last four years for which complete financial information is available, (1983-1986), UNIDO implemented $359.3 million in technical cooperation programs, virtually all funded through voluntary contributions (primarily the UN Development Program). In addition, through its regular program, UNIDO has funded activities in support of industrial development including macro-economic studies of factors affecting industrialization; advice to developing country governments on development policies; industrial sector, regional, country and case studies; statistical data collection and analysis; expert group meetings including sectoral consultations; information processing and investment promotion. Regular budget activities amounted to $212.8 million over the 1983-1986 period.

SENATOR INOUYE: What is the cost of maintenance of UNIDO offices in the U.S.?

MR. GOODMAN: The cost of maintenance of the UNIDO Investment Promotion Office in Washington, D.C. is approximately $500,000 annually. U.S. voluntary contributions of $150,000 in 1987 and 1988 helped defray that cost (which is borne by the host government in other countries). The cost of the UNIDO liason office in New York is covered by the regular budget of the organization.

SENATOR INOUYE: Please list for the record UNIDO investment in the United States or with American owned firms.

MR. GOODMAN: As a UN specialized agency, UNIDO does not have investments in the U.S. or any other country, nor does it have a financial interest in private or publicly owned firms. UNIDO has, however, through its investment promotion services, facilitated American investment in the developing countries.

SENATOR INOUYE: Please identify all UNIDO investment promotion centers around the world.

MR. GOODMAN: UNIDO investment promotion services are located in Washington, D.C.; Cologne, Federal Republic of Germany; Milan, Italy; Paris, France; Tokyo, Japan; Vienna, Austria; Warsaw, Poland; Zurich, Switzerland and Seoul, Republic of Korea.

SENATOR INOUYE: Please provide a list of all Americans, companies, organizations, or entities of any sort receiving payments from UNIDO.

MR. GOODMAN: There are 81 Vienna-based Americans receiving salaries and benefits from UNIDO. In addition, there are approximately 160 American short-term experts hired annually by the organization. We can obtain a list of the names of these Americans from UNIDO headquarters in Vienna. Other payments would, of course, include obligations to all companies, organizations, and entities which provide goods, services, equipment, training, and expertise to UNIDO for technical assistance projects ($99.6 million in 1986) and regular budget activities ($65.5 million in 1986).

ORGANIZATION OF AMERICAN STATES (OAS)
DEVELOPMENT ASSISTANCE PROGRAMS

DEVELOPMENT ASSISTANCE PROGRAMS, GENERAL

U.S. contributions to OAS Development Assistance programs mobilize human and natural resources in Latin America and the Caribbean in multilateral efforts to promote economic development consistent with U.S. national interests in the area. The fiscal year 1988 appropriation is estimated at $12 million. Administration FY 1989 request: $15 million.

SENATOR INOUYE: What steps has the Administration taken to ensure that no United States funds contributed to the OAS Development Assistance Programs are used to benefit the govenments of Nicaragua and Cuba?

MR. GOODMAN: Pursuant to existing legislation the OAS has certified from year to year that no OAS funds have been budgeted or expended for programs in Cuba which was suspended from membership in 1982.

Nicaragua is a full participating member of the OAS and contributes its share to the various OAS voluntary funds used to finance technical assistance. It also is a recipient of such assistance which, inasmuch as it is multilateral by an international organization, does not fall within the purview of the U.S. embargo.

SENATOR INOUYE: Has the Administration considered withholding its portion of OAS funding used to finance projects under the current regime in Panama?

MR. GOODMAN: The U.S. has not undertaken in the OAS to withhold the U.S. portion of of the cost of multilateral technical assistance by the OAS to Panama.

SPECIAL PROJECTS FUND

In 1973 the United States started the Special Projects Fund within the OAS Development Assistance Program. The Fund concentrates exclusively on horizontal cooperation among two or more member states. Its priorities have been cooperative educational projects, including drug abuse, as well as science and technology. Administration FY 1989 request: $2.2 million.

SENATOR INOUYE: What have been some of the accomplishments of the Special Projects Fund since its inception in 1973?

MR. GOODMAN: The following examples of grouped Special Projects have been selected as demonstrative cases of cooperative efforts of a large number of countries, big and small, with different degrees of development, and with marked continuity from one project to another within each group.

SPECIAL PROJECTS ON FOOD TECHNOLOGY: The main objectives were the reduction of post harvest losses and the improvement of the nutritional value of traditional foods. Results have been encouraging. Post harvest losses were significantly reduced by dehydration, juice and preserves production and packing technologies applied to tropical vegetables and fruits; the technologies developed are currently in use by industry. Vegetable (soy and cotton) proteins were effectively incorporated in composite flours. New products were introduced in sausage manufacturing, using previously discarded fish species. High caloric content foods were obtained, and produced for infant nutrition through enzymatic modification of starches and proteins. Shelf life of fish has been increased by enzymatic treatment. The following countries participated: Argentina, Venezuela, Mexico, Brazil, Eduador, Chile, Peru, Paraguay, Uruguay, and Suriname. Total funds allocated were $2.8 million.

SPECIAL PROJECTS ON INFORMATION S & T: The main objective has been to assist in the establishment of information units and systems and to promote informatic technologies. Information units have been created to provide industrial liaison services, selective dissemination of information, inquiry services, referral and retrospective technical data research to the productive sector, specially to the small and medium size private firms. A sustained effort has been made to achieve regional integration of national information services by publishing and distributing thesauri and uniform operating manuals, and by promoting service networking and sponsoring a large number of regional training courses and seminars. The following countries participated: Venezuela, Colombia, Mexico, Peru, Chile, Guatemala, Ecuador, Bolivia, Nicaragua, Honduras, Costa Rica, Dominican Republic, Trinidad and Tobago, Argentina, Panama, Suriname, El Salvador, and Paraguay. Total funds allocated: $5.2 million.

Tele-Education Systems Project: This project was initiated at the request of Costa Rica in 1978 and joined by Venezuela in 1979, Bahamas, Colombia, El Salvador, Honduras and Peru in 1982, and Brazil and Argentina in 1987. Its central goal was the development of tele-education available to students who otherwise could not attend traditional institutions for social or geographic reasons. It has been instrumental in the development of Costa Rica's National Open University, the system of 40 Colombian institutions of higher education coordinated by ICFES with 100 programs and 80,000 students, Venezuela's National Open University and Honduras' Autonomous University with 48,000 students and programs in Rural Business Administration at the "Universidad Autonoma" (Honduras). For example, in Colombia its impact shows in 230 Regional centers for Tele-education, established in towns and regions without higher education where 55,000 students are being trained in nontraditional subjects as among others, Rural Business Administration, Gerontology and and-on-the-job training for teachers. Total funds allocated $761,800.

SPECIAL PROJECT OF EDUCATION FOR INTEGRATED RURAL DEVELOPMENT (1979-1982): Argentina, Bolivia, Chile, Colombia, El Salvador, Grenada, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, dominican republic, Saint Lucia, Suriname and Venezuela have participated in this project. Funds allocated during this period were $1,826.800. In their efforts to complement existing programs, these countries conducted several activities related to education and rural development such as literacy and health campaigns, community development, reforestation, small scale fishing, water supply and sewage treatment, arts and crafts production. A specific achievement of this project was its contribution to the establishment of a documentation unit of integral rural development established in the Regional Center of Fundamental Adult Education for Latin America (CREFAL-Mexico). The project also contributed in the case of Colombia with the preparation of the manual for literacy which as adopted for use at the national level.

U.N. PEACEKEEPING OPERATIONS

SENATOR INOUYE: What is the current status of UN peacekeeping operations?

MR. GOODMAN: There are currently five UN military operations which could be termed peacekeeping in the broadest sense of the word. They include the UN Truce Supervisory Organization (UNTSO), headquartered in Jerusalem, set up to supervise the 1948 truce which ended the first Arab-Israeli war. UNTSO has 298 unarmed observers from 17 countries, including the U.S. and the U.S.S.R. The UN Interim Force in Lebanon (UNIFIL) was established by the Security Council following the Israeli invasion of south Lebanon in 1978. Headquartered in the south Lebanese town of Naqoura, UNIFIL has a troop strength of 5800 from nine countries. The UN Disengagement Observer Force (UNDOF) was set up by the Security Council following the 1973 Arab-Israeli war to oversee the disengagement of Israeli and Syrian forces in the Golan Heights. It has 1330 troops and observers from four countries. The UN Peacekeeping Force in Cyprus (UNFICYP) was established following the outbreak of intercommunal fighting in Cyprus in 1964 to prevent recurrence of conflict and help to restore normal conditions. Since the Turkish invasion and de facto partition of Cyprus in 1974, the 2350 troops from 8 countries have manned a buffer zone separating the opposing forces. The UN Military Observer Group in India and Pakistan (UNMOGIP) was set up to supervise the cease-fire between India and Pakistan in Kashmir in 1948. Since 1972, the 38 observers from 8 countries are stationed on both sides of the Line of Control between the two countries as set up by the Simla Agreement.

SENATOR INOUYE: Do you foresee any expansion in U.N. peacekeeping activities in the near future?

MR. GOODMAN: Yes. The Security Council has given provisional approval to the establishment of of a UN force in Afghanistan to monitor compliance with the recently concluded Geneva Agreements. The force will consist of some 50 military observers, primarily from existing UN contingents, and some 30 civilian support staff.

The UN plan for Namibian independence, which has general UN acceptance, foresees the eventual creation of a UN group with a military component to oversee the transfer of power and holding of elections.

It is possible that there may be a role for UN peacekeeping or observer forces in a settlement of the Iran-Iraq war, and an eventual Vietnamese withdrawal from Cambodia.

SENATOR INOUYE: Is any peacekeeping role envisioned for the United Nations in Afghanistan?

MR. GOODMAN: As noted above, a limited UN monitoring role is foreseen for Afghanistan. There is no plan for a broader peacekeeping role.

SOVIET ESPIONAGE

SENATOR INOUYE: As you know, last year the U.N. created an Office for the Research and Collection of Information. At that time, there was some concern in this body about the potential use of this office by the Soviets in the Secretariat for espionage.

What exactly is this office doing, and have there been any indications that any of the Soviets in the division, such as Mr. Dmitrichev, are engaged in espionage?

MR. GOODMAN: The Office of Research and the Collection of Information is still very new. We are watching its operations with great interest. The office's stated purpose is to gather and analyze public information from open sources to assist the U.N. Secretary-General to keep abreast of political developments around the world that bear on issues of international peace and security. It was created as part of a reorganization of the U.N. Secretariat which we supported. We are not aware of any Soviet employee of the Office for the Research and Collection of Information who is engaged in conduct inconsistent with his status as an international civil servant.

UNITED NATIONS DEVELOPMENT PROGRAM

SENATOR INOUYE: During the past ten years, the United States has been the largest single contributor to UNDP. In this decade, other major donors have increased their contributions to UNDP with the result that the American percentage of the total program contribution has decreased.

What impact has this had on U.S. leadership in the UNDP?

MR. GOODMAN: Although the U.S. contribution to UNDP has declined from $165 million (or 24.5 percent of total contributions) in FY-1985 to $110 million (or 11.4 percent of total contributions) in FY-1988, the decline has not lessened our leadership role in UNDP. In UNDP, as in many organizations, our influence far outweighs our level of contributions.

SENATOR INOUYE: How has it affected UNDP programs?

MR. GOODMAN: UNDP programs have not been adversely affected by the declining U.S. contributions because of the depreciation of the U.S. dollar vis-a-vis other major world currencies in recent years and the increased contributions from UNDP's other large donors such as Sweden, the Netherlands, West Germany, and Japan. UNDP total contributions have increased from $673.5 million in 1985 to $966 million in 1988; or by 43.4 percent.

SENATOR INOUYE: Please provide a chart showing the U.S. contributions to UNDP for the past decade and illustrating the percentage of the total program provide by our Government.

MR. GOODMAN: (see attached chart)

Contributions to General Resources
($millions)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Total	679.5	691.8	688.7	679.7	697.8	695.2	673.5	774	865	966
U.S.	126	126.05	125.8	128.2	140	160	165	138.1	107.5	110
U.S. Share (%)	18.5	18.2	18.2	18.8	20	23	24.5	17.8	12.4	11.4

UNITED NATIONS DEVELOPMENT PROGRAM

UNDP IN AFRICA

SENATOR INOUYE: What steps has UNDP undertaken to address the emergency needs of African countries most affected by drought and famine?

MR. GOODMAN: UNDP provided support to the activities of the Office for Emergency Operations in Africa (OEOA) from the opening of the Office in December 1984 until its phasing out in October 1986. In countries where emergency situations persist, e.g., Ethiopia, Mozambique, Angola, Sudan, Somalia, Malawi, and Uganda, the UNDP Resident Coordinator usually heads Emergency Operations Groups involving other relevant organizations and agencies of the U.N. system. The Emergency Operation Group in each country is responsible for assessing emergency needs and coordinating and distributing relief assistance.

In 1984, UNDP drew $1.5 million of its Special Program Resources (SPR) to fund United Nations Volunteers (UNVs) to assist with the emergencies in Angola, Ethiopia, and Mozambique. UNDP will use additional SPR funds to finance the cost of additional UNVs in Ethiopia ($368,500) and Angola ($404,000).

UNDP has supported a number of specific drought-related activities. Examples include: a remote sensing project in the Sahel to survey land and water resources, a catalytic program for reconstruction of Angola's southern provinces, and establishment of a special UNDP trust fund in Mozambique for emergency assistance.

SENATOR INOUYE: What is the current percentage of UNDP's total funding which is expended for Africa?

MR. GOODMAN: In 1987, UNDP expended 35.3 percent, or $244.7 million, of its total expenditures in the sub-Sahara Africa.

SENATOR INOUYE: Please summarize, for the record, the Executive Branch's view of the UNDP round-table meetings held in Africa during the past two years.

MR. GOODMAN: We are, in general, quite pleased with the UNDP's handling of the three RTCs held over the past two years. The UNDP co-chairmen conducted the proceedings impartially, professionally, and effectively; considerable progress was made in delinking discussions of macroeconomic issues from those involving specific project proposals and donor pledging; and there has been formal follow-up to the RTC, in the form of in-country reviews and sector consultations, in most cases. We view it as most significant and useful that UNDP and IBRD have increased both their working-level and formal coordination. For example, the IBRD is now most helpful in providing its latest country macroeconomic reporting and analyses to UNDP.

SENATOR INOUYE: I understand that UNDP is showing leadership in certain African countries for development purposes. Provide for the record a list of round-table countries where UNDP chairs the meetings and a list of consultative group countries in Africa in which the IBRD is the chair.

MR. GOODMAN: (see attached chart)

COUNTRY-LEVEL COORDINATION ARRANGEMENTS

Region/ Country	Donor Lead Agency	Type of Arrangement	Year Established	Date of Last Meeting
AFRICA				
Egypt	IBRD	Cons. Group	1977	Jan. 1981
Ethiopia	IBRD	Cons. Group	1971	1971-Inactive
Ghana	IBRD	Cons. Group	1967	May 1987
Guinea	IBRD	Cons. Group	1985	Mar. 1987
Kenya	IBRD	Cons. Group	1968	Apr. 1986
Madagascar	IBRD	Cons. Group	1982	Jan. 1988
Malawi *	IBRD	Cons. Group	1986	Jan. 1986
Mauritania	IBRD	Cons. Group	1985	Nov. 1985
Mauritius	IBRD	Cons. Group	1980	May 1985
Morocco	IBRD	Cons. Group	1967	Mar. 1987
Mozambique	IBRD	Cons. Group	1987	Jul. 1987
Nigeria	IBRD	Cons. Group	1963	1971-Inactive
Senegal	IBRD	Cons. Group	1984	Mar. 1987
Somalia	IBRD	Cons. Group	1983	Apr. 1987
Sudan	IBRD	Cons. Group	1963	Dec. 1983
Tanzania	IBRD	Cons. Group	1968	Jul. 1987
Uganda	IBRD	Cons. Group	1968	Jun. 1987
Zaire	IBRD	Cons. Group	1971	May 1987
Zambia	IBRD	Cons. Group	1978	Dec. 1986
Benin	UNDP	Round Table	1980	Mar. 1983
Burkina Faso	UNDP	Round Table	1976	Nov. 1985
Burundi	UNDP	Round Table	1978	Feb. 1984
Cape Verde	UNDP	Round Table	1982	Oct. 1986
Central Afr.Rep.	UNDP	Round Table	1980	Jun. 1987
Chad	UNDP	Round Table	1982	Dec. 1985
Comoros	UNDP	Round Table	1984	Jul. 1984
Djibouti	UNDP	Round Table	1980	Mar. 1983
Equatorial Guinea	UNDP	Round Table	1982	Apr. 1982
Gambia	UNDP	Round Table	1984	Nov. 1984
Guinea Bissau	UNDP	Round Table	1984	May 1984
Lesotho	UNDP	Round Table	1972	May 1984
Liberia	UNDP	Round Table	1984	Oct. 1984
Malawi *	UNDP	Round Table	1984	Feb. 1984
Mali	UNDP	Round Table	1982	Nov. 1985
Niger	UNDP	Round Table	1987	Jul. 1987
Rwanda	UNDP	Round Table	1982	Dec. 1982
Sao Tome & Principe	UNDP	Round Table	1985	Dec. 1985
Togo	UNDP	Round Table	1985	Jun. 1985
Zimbabwe	UNDP	Round Table	1981	Mar. 1981
Sierra Leone	UNDP	Proposed R.T.	----	---------

*Changed to Consultative Group in 1986.

PROGRAM ASSESSMENTS

SENATOR INOUYE: Prior to 1986, U.S. Embassies abroad were required to report on a biennial basis on UNDP and other U.N. development assistance activities. Since this requirement was eliminated, the Evaluation and Planning Division of State's Bureau of International Organization Affairs has conducted ad hoc assessments.

What programs were evaluated in the past year?

MR. GOODMAN: The Evaluation and Planning Division of State's Bureau of International Organization Affairs has conducted assessments of UNICEF field programs and of UNIDO (A follow-up to a 1986 assessment). It also has sent a questionnaire to U.S. field missions concerning UNEP's Clearing-House Program and incorporated the results into a position paper for the 14th session of UNEP's Governing Council. Finally it has analyzed U.S. field mission responses to a questionnaire on UNDP program management.

SENATOR INOUYE: Have these ad hoc reviews provided sufficient coverage?

MR. GOODMAN: These ad hoc reviews have provided in-depth coverage of selected programs instead of necessarily superficial coverage of all UN system field programs. Over the years, we expect that all major programs will receive adequate in-depth scrutiny.

SENATOR INOUYE: Are the staff resources devoted to this function adequate?

MR. GOODMAN: The staff resources devoted to this function are adequate for in-depth coverage of at least one program per year. in addition to the divisions purely evaluative functions the Evaluation and Planning Division is also spending an increasing proportion of its time on reviews and analysis to support U.S. positions on agency and system-wide issues related to improving the quality and management of U.N. system operational activities for development.

U.S. GOVERNMENT EVALUATION SYSTEM ON UNITED NATIONS' FIELD PROGRAM

SENATOR INOUYE: Previous, the Executive Branch maintained a field evaluation reporting system called CERP. This system permitted U.S. Embassies and A.I.D. Missions abroad, which would evaluate and comment on the United Nations system's field projects.

What steps will the Administration undertake to establish a new field reporting system to monitor and evaluate United Nations' field programs.

MR. GOODMAN: There are no current plans to establish a new comprehensive field reporting system along the lines of the former CERP-0008. The Administration does not have the resources, either in Washington or in the field, to produce across-the-board (and necessarily superficial) surveys of U.N. assistance activities and at the same time meet the need for more in-depth assessment of specific programs.

SENATOR INOUYE: It is my understanding that the last field summary report on UNDP was made in January, 1986.

How has the Administration evaluated UNDP field activities in the interim?

MR. GOODMAN: The January 1986 CERP-0008 Summary Report is based on 92 field mission reports received between April 1982 and December 1984 and on 46 mission responses to a questionnaire on FAO and the private sector. Loss of staff by the Evaluation and Planning Division of State's Bureau of International Organization Affairs delayed the review, analysis and consolidation of field responses to revised CERP-0008 reporting guidelines issues in 1985. (An abbreviated summary was prepared in 1988 and is provided together with the January, 1986 report).

SENATOR INOUYE: Please provide a copy of the 1986 summary finding for the record:

MEMORANDUM

TO: The Files

SUBJECT: CERP 0008 1985

FROM: Patrick A. Gage, IO/EDP Pat Gage

DATE: August 14, 1987

On April 23, 1985 State 123245 was sent to thirty four embassies* advising that, after extensive review, the Department had revised the requirements for CERP 0008. Henceforth the report would consist of two sections and would be submitted annually by selected embassies, selection being based upon the need to elicit information concerning specific UN programs. State 123245 recipients were selected upon the basis of substantive WFP activities being conducted in their countries. Thirty one embassies responded and the substance of those responses, as they related to the UN program in general, are set forth below.

General

The quality and timing of the field responses varied substantially. Many embassies provided complete and well-constructed responses having conducted specific interviews with representatives of the UN and of the host government. A limited number of embassies referred to past reports as remaining relevant and a limited number of embassies provided terse and tardy reports. There may be some relevance in noting the apparent correlation between the quality of reporting, ie. the level of effort apparent in formulating the response, and the substance of the response itself, ie. short, shallow, tardy responses referred to poor program while long, detailed, substantive responses referred to high quality programs.

Questions and Responses

State 123245 elicited embassies' assessments of the UN program and the WFP in particular. Below are the questions and summary responses relating to the UN program.

UNDP as Coordinator

1. How effective is the UNDP in coordinating UN assistance?

Most embassies responded that the UNDP effectively coordinated UN programs. Most exceptions cited the UNDP's lack of control over specilaized agencies implementing activities that were funded outside of the regular UN program. Many responses noted the role of the ResRep in holding regularly scheduled meetings of the representatives of specialised agencies. Many embassies appeared to have misread the the question and attempted to address the matter of the UN attempting to coordinate all donor assistance, a role which it was suggested that the UN not attempt to perform. However, many responses cited the UN's role in annually amassing the data pertaining to the levels and types of assistance being delivered to each country in turn.

2. What is the role of the UNDP ResRep and the specialized UN agencies in preparing the UNDP country program?

Responses to this question were weak and mixed, probably reflecting a lack of specific knowledge regarding the planning and program procedures of the UN and the specialized agencies. Substantive responses however remarked positively on the the UN's role in preparing the program, a process most noted as involving substantial interchange between the UN, specialized agencies, and appropriate sections of the host country governments, with the ResRep taking a leading and positive role in the process.

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*Tunis, Amman, La Paz, Guatemala, Port-Au-Prince, Brasilia, Mexico City, Lima, Gabarone, Ouagadougou, Bujumbura, Nairobi, Maseru, Lilongwe, Bamako, Maputo, Niamey, Dakar, Mogadishu, Khartoum, Dar es Salamm, Dhaka, New Delhi, Jakarta, Kathmandu, Islamabad, Manila, Colombo, Praia, (No response on record - Cairo, Rabat, Beijing, and Accra)

3. What is the host government's attitude toward the UNDP's in-country coordinating role?

Most embassies misread the question and responded to government attitudes toward the UNDP as coordinator of all donor assistance, and in that respect noted that host government's, most naturally, preferred to reserve the role of donor coordinator to themselves. Some responses referred to the World Bank as assuming the role of donor coordinator. In general, host country governments appeared to look naturally to the UNDP as coordinator of all UN agency assistance.

4. What do other donor representatives think of the ResRep's performance of his role?

When respondnents answered this question substantively they essentially provided positive responses, that is, in most cases referring other donor's positive and oftentimes admirable opinion of the ResRep's performance. Negative responses to this question were distinctly in the minority.

5. Do any UN activities overlap or work at cross purposes with those of any major donors?

With one exception the responses were universally negative or stated that they were unaware of instances of overlap. The exception referred to the UNHCR program in Somalia as working at cross purposes with the AID program, ie. the former attempting to sustain a refugee program and the latter striving for permanent resettlement of displaced persons.

Host Country Attitude/Regard for UNDP Program.

1. How does the host government regard the UN assistance program?

Virtually all responses cited the host government's favorable opinion of the UN assistance program. Many noted that the 'neutrality' of the UN as an assistance donor made it particulacly attractive and was thus a prefered donor for assistance in relatively sensitive areas, eg. providing technical assitance within ministries of planning and/or finance. Most responses noted that host countries viewed the UN program as a provider of exceptionally well qualified technical assistants.

2. Does host country meet counterpart support commitments?

Responses to this query were generally positive but cited the predictable exceptions such as limitations regarding counterparts for experts and limited host country ability to meet financial commitments.

3. How does the host country allocate the IPF in preparing the UN Country Program?

Most responses did not address this question but those that did cited UN coordination with individual ministries to determine financial needs of planned activities and thus allocation of the IPF.

4. What is host country official's assessment of the UN ResRep as a planner and manager of the UN program?

Not all respondents addressed this question but those that did generally reported very favorable attitudes on the part of host country officials towards the ResReps. Nonresponse was generally due to reticence on the part of host country officials to pass comment/judgement on UN officials.

Embassy Assessment of UN System Program.

1. Is the UN system effective in meeting host country priority needs?

2. Would a different program mix be more effective?

3. Which is the best performing UN agency?

4. Any major Problems?

5. Is the UN program consistent with US interests in the host country?

The answers to all of the above were brief and virtually noncommital and were at best positive. Perhaps being the last questions asked on the questionnaire the respondents had run out the mental fuel and effort to respond in more than a cursory manner.

SUMMARY

The majority of the responses were positive regarding the role of the UN, the specialized agencies and the role of the ResRep in directing/coordinating the UN program. The quality of the responses varied somehwat, and perhaps in direct correlation with the respondents opinion of the UN program. For example, respondents that were aware of the names of many of the UN officials, citing them in their reports, also reported very positively regarding the programs of those individuals.

16

AIRGRAM

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FROM: Department of State

DATE: 1986 JAN 17 PM 2:00

E.O. ~~XXXXX~~ 12065: N/A

TAGS: ECRP, UNDP, EAID

SUBJECT: CERP-0008 - Review of UN Development Assistance

REF: (A) 81 State A-542 (B) 84 State 290918

CAPTIONS: UNVIE, FOR USREP ICAO, NESCO, FODAG, UNEP

Attached for your information is a review of UN development assistance programs, prepared as a CERP-0008 requirement. This study is based on 92 field mission reports received between April 1982 and December 1984. The section on "FAO and the Private Sector" was derived from 46 additional responses to a separate questionnaire received primarily during August and September 1983. The Department and AID want to commend those of you who devoted the time and energy to preparing substantive responses. Your reports have been used by the Department, AID, and others in monitoring the activities and progress of UN technical assistance programs, particularly those funded by the UNDP. This analysis has already been requested by the Congress and the GAO to assist in their consideration of U.S. contributions to regular budgets and voluntary accounts of the development-related Specialized Agencies and organizations of the UN system.

SHULTZ

Enclosure:

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REVIEW OF UN DEVELOPMENT ASSISTANCE PROGRAMS: ANALYSIS OF CERP 0008 REPORTS: 1982-1984

SUMMARY

The United Nations system provided over two billion dollars of grant aid in 1984. This included almost seven hundred million dollars of World Food Program assistance. Over one quarter of the grant assistance total is provided through the United Nations Development Program (UNDP), which is also responsible for the coordination of grant technical assistance. While the share for any one country is modest, host governments in virtually all recipient countries view this multilateral grant aid very positively according to U.S. embassies participating in this review of UN development assistance programs. Such positive regard is not surprising, because the UN program reflects the desires of the host government. (These results in general mirror those of a similar review of May 1982.) In addition, U.S. embassies generally rate UN program performance satisfactory or better. Most reports noted that UN system aid had certain advantages which bilateral donors could not match. Most posts stated that UN activities benefited U.S. political and economic interests, while very few found any UN activities harmful to U.S. interests. The UNDP Resident Representatives generally received praise for their performance as managers of the UNDP program as well as for their coordination of both UN system and bilateral donor aid. Most reports noted that UN activities promote indigenous private enterprise. The reports also identified problems, including personnel problems and insufficient financial resources. This study is based on 92 field mission reports received between April 1982 and December 1984. A table summarizing these reports is attached. The section, on "FAO and the Private Sector" was derived from 46 additional responses to a separate questionnaire received primarily during August and September 1983.

I. Introduction

The United Nations system, including the World Bank family, provided on a net disbursement basis over eleven billion dollars in development resources in 1984 according to the UN's Operational Activities Report of October 1985. Of this, over two billion dollars consisted of grant aid, including almost seven hundred million dollars of World Food Program assistance. Over one quarter of the grant assistance total is provided through the United Nations Development Program, which is also responsible for the coordination of grant technical assistance. (Almost nine billion dollars, primarily loans, were provided by the World Bank family and the International Fund for Agricultural Development, which are not covered in this report.) The U.S. share of this grant aid is about 25 percent, depending on the UN agency involved. While this report looks at all UN grant assistance, it focuses particularly on the central funding and coordination role of the United Nations Development Program (UNDP). UNDP, which provided $614 million on operational activities in 1984, is financed entirely by voluntary contributions from governments.

Despite the number of agencies and the large amounts of money involved, UN system grant aid is a modest portion of total aid to countries receiving major amounts of external assistance. (This was also true in the 1982 review.)

UNDP was established in 1966 to be the central fund for grant technical assistance in the UN system. It was also assigned, at least conceptually, a leadership role in the programming and implementation of all UN grant development assistance. This role was strengthened in the late 1970s when the UN General Assembly stipulated that UNDP country programs be used as a framework for all UN technical assistance. The General Assembly also created the post of Resident Coordinator with the responsibility for coordinating the various economic development components of the UN system. This function is routinely assigned to the Resident Representative. However, little authority accompanied this new responsibililty, hence the UNDP Resident Representatives have been unable to reduce the autonomy of the major implementing agencies.

In 1981 UNDP was directed to assist least developed countries in establishing consultative aid groups or "Roundtables" (similar to the World Bank-chaired Consultative Groups). Questions remain as to whether the UNDP should assume a more continuous and extensive donor coordination role. UNDP does not now have such a role but bilateral donors frequently encourage it to perform this function. UNDP has tried to strengthen the country programming process by making it a framework for all donor technical assistance in the "Roundtable" countries.

This study is based on reports from 92 U.S. embassies/AID missions received between April 1982 and December 1984 in response to a questionnaire including the following topics.

A. Host country support for UN system assistance.

B. UN system effectiveness in program planning and implementation.

C. UN role in coordinating UN system assistance as well as other donor development programs.

D. UN aid and the private sector.

E. Problems identified by the reports.

Under topic D, the section specifically on the benefits FAO activities provided to the United States and recipient country private sectors is based on 46 additional reports received primarily during August and September 1983.

II. Host Country Support

Some 94 percent of the reports indicated that host countries had a good-to-excellent attitude towards UN system assistance. While UN system aid is not large compared to many bilateral programs, respondents noted the following advantages of UNDP over bilateral assistance. Many reports mentioned the UN's neutral, apolitical nature. The UN is certainly viewed with less suspicion, and thus many host governments are willing to assign UN-funded experts to sensitive areas (e.g., planning) where bilateral assistance would be unacceptable. The UN system is also seen as being Third World oriented, a donor with a "South-South" alignment rather than the "North-South" focus of industrialized donors. Several reports also noted the special compatibility existing between host nationals and UNDP personnel from the same or "equivalent" geographic regions.

UNDP provides for greater host government participation in program planning and project design than is usual for bilateral donors or multilateral development banks. UNDP is sometimes considered the donor of last resort. It is willing to try technically or socially risky projects or other assistance that bilateral donors do not provide. Some reports indicate that

UNDP fills a visible role with its technical assistance because of the dearth of host national experts and because many aid donors prefer to tie their aid to larger and more visible projects such as roads and clinics. Also, because of the wide spectrum of UN assistance agencies, host governments believe the UN system can provide necessary aid which may not meet the aid priorities of bilateral donors, as, for example, specialized training like civil aviation.

UN system aid can also draw on a large pool of advisers with both technical expertise and linquistic ability. Mission reports indicate that UN-funded experts have a reputation for being generally of high quality, and appear to be recruited more quickly than those from bilaterally-funded programs.

Recipient countries can use UN system scholarships, unlike those from bilateral donors, in those countries providing the best technical training or education. Also, the UN system was seen by recipient countries as being commercially neutral -- where bilateral aid was seen as leading to follow-on purchases.

Some 7 percent of the reports noted disadvantages to UN system assistance. One Embassy described the UN as weak and passive when it should take a stronger stand on developmental policy issues. Another report noted how routine decisions had to be referred to higher authority for resolution. There was also some concern about UN system technical assistance; this will be discussed in Section VI which identifies problems that may require further attention.

III. UN System Development Effectiveness

A. UNDP Program Planning

About 91 percent of the respondents said that UNDP's country program was relevant to local needs, with 63 percent indicating great relevance. This high level of relevance mirrored results of the 1982 review, and is not surprising because the UNDP country program reflects the host government's priorities.

UN system programs funded independently of UNDP are considered by the responding missions in general to be "moderately relevant" to the UNDP country program. This difference in relevancy, also reflected in the 1982 review, is due in part to the autonomy of these programs. Two reports noted that there is still resistance from UN specialized agencies (particularly from WHO and FAO) to working within the framework of the UNDP Country Program even though they often do not carry out a rigorous programming exercise of their own.

B. UN System Program Implementation

Seventy percent of the reports indicate government satisfaction with UNDP project implementation. UNDP also receives high marks for its funding of pre-investment studies and project designs, both of which may lead to substantial bilateral and multilateral funding by other donors. UNDP's evaluation program, which in some cases led to redesigning or even cancelling troubled projects, was also frequently praised. The reports also indicated that the UN's implementing agencies were performing in a reasonable manner. Many reports cautioned, however, that local economic problems affect UN system performance. Many recipient countries are unable to provide the required financial and human resource counterpart called for by project agreements.

C. UN Aid Benefits for the United States

Thirty-four percent of respondents believed that UN activities benefited U.S. political and economic interests, particularly by promoting social welfare and orderly development of the economy. One report noted that UNDP-funded pre-investment studies made the country more attractive for private enterprise. Among the almost 20 percent of negative reports was one which indicated that the funding of scholarships for training in Eastern Bloc countries was detrimental to U.S. interests. (However, other reports indicated that the United States benefits from UN-funded scholarships to U.S. educational institutions.)

IV. Coordination and the UN Resident Representative

A. Host Government's Attitude Towards UNDP's Coordination Role

As implied in the reports, donors see the coordination of economic assistance as an important task if scarce development resources are to be used effectively. Reports on host government attitudes in this regard indicate that 28 percent of the governments welcomed UNDP's coordination of donor aid, while 24 percent discouraged it. (Forty-eight percent did not answer the question.)

B. Coordination of UN System Development Programs

Almost 60 percent of the reports noted favorably the Resident Representative's ability to coordinate UN system activities. (This was generally reflected in the 1982 review as well.) Only 14 percent thought he did a poor job. (An additional 27 percent did not answer this question.)

C. Coordination of All Donor Development Programs

Forty percent of the posts indicated the UNDP Resident Representative was doing a good job in coordinating donor development programs. For example, Resident Representatives sometimes held monthly donor coordination meetings which other UN agencies and bilateral donors attended. As noted in some reports, this coordination has reduced government ability to manipulate the individual donors. Many reports also indicated that UNDP Resident Representatives had facilitated formal coordination at "Roundtable" conferences. But field mission reports independent of this study have indicated the need to improve the process, and such improvement is underway.

Many reports cited coordination of all donor development programs as a problem which UNDP should address regardless of the Resident Representative's lack of formal responsibility for such coordination (except in countries where he is responsible for organizing Roundtable donor conferences, as noted in Section I above). Twenty-one percent of the posts said the Resident Representative was doing a poor job of coordinating all aid donors and noted the need for the UNDP to encourage better coordination. (The 1982 review also emphasized this.) One report noted that the UN is probably in the best position to encourage coordination, but another report said the host government, not the Resident Representative, should perform this function. (Thirty-nine percent did not answer the question.)

D. UN/USAID Collaboration

Regarding collaboration and complementarity of UN and USAID activities, many posts cited examples of such activities, although, as in the 1982 review, indications of extensive collaboration were in the minority. Because the UN system is operating in many countries where there is no USAID, there are limited opportunities for collaboration.) Other posts reported that there was very little direct U.S.-UN cooperation due to the small and scattered nature of UN projects.

V. UN Aid and the Private Sector

A. U.S. Private Sector Participation

Although some UNDP-funded goods and services are of U.S. origin, the scope of U.S. private sector participation is not extensive (as was reflected as well in the 1982 review). The reports offered several reasons for this: first, the relatively small scale of most UN system projects and the high cost of transport are disincentives for U.S. contractors and suppliers; second, UNDP assistance focuses primarily on technicians rather than equipment and construction; and third, host countries believe that U.S. firms were not price competitive (although other reports alluded to the recognized high quality of American manufactures, and many reports identified potential areas for future participation of U.S. firms). Frequently cited fields for both long-term U.S. contracts and short-term consultancies included construction, aviation, telecommunications, health, and transportation.

B. Host National Private Sector Participation

Fifty percent of the posts said that UN activities promote indigenous private enterprise. Many of the UN system's development efforts directly and indirectly supported the development of the private sector. For example, one report cited UNDP's heavy emphasis on human resources and manpower development -- a sector which met a critical need of domestic enterprises. A number of projects were focused on providing better opportunities for small and medium industrial enterprises. In this same country, the UN system also funded activities which encouraged foreign investment. On the negative side, sixteen percent of posts reported problems such as where the host government was committed to a socialist system and to a centrally planned and controlled economy. (An additional 34 percent did not answer the question.)

C. FAO and the Private Sector

In light of FAO's importance to UN system assistance we are presenting here the results of a separate study on FAO and the private sector. This summary is based on 46 responses to an August 1983 request concerning the benefits FAO activities give the U.S. and recipient country private sectors. Most responses indicated that the small size and advisory nature of most FAO programs limited significant direct benefits to the U.S. or indigenous private sectors. But because the agricultural sector is privately owned, practically all of FAO's efforts ultimately benefit the private sector, at least indirectly.

Regarding benefits for the U.S. private sector, some responses noted that FAO's role as a technical assistance agency precluded the purchasing of much equipment. Nonetheless, many of the responses indicated specific benefits to the United States due to FAO programs. These include equipment sales, better agricultural produce reaching American subsidiaries, recruiting of U.S. experts, and training in U.S. institutions. However, one post noted that the lack of reliable sources locally for spare parts and repair facilities for U.S. equipment "continues to be [the] principal impediment to procurement of U.S. vehicles and equipment."

VI. Problems Identified

Sixty-five percent of the reports cited actual or potential problems related to program execution by UNDP and relevant UN implementing agencies. Other than coordination of all donor aid (which is not really the Resident Representative's responsibility, as noted in Section I above), the two most frequent problems were personnel deficiencies and insufficient program funds. There were also problems relating to the implementing agencies, and the need for some countries to become net-contributors.

A. Personnel Issues

The most frequent concern was the uneven quality of UN experts. While most reports noted that UN experts were satisfactory or better, six reports revealed problems with the quality of some UN experts. For example, one report stated that 34 percent of the experts in that country were of poor quality. A second report, which went into more detail than the others, believes part of the problem is due to the number of Third World advisors involved. More than 75 percent of the UN experts in this country are from the developing world. The host government is prepared to pay well for expertise but claims it is not getting it from Third World experts. One rationale for some Third World advisers is the need for experts who are sensitive to the culture and may have some affinity for the local language. This government is less concerned with these matters, however, and has reportedly requested UNDP to provide more experts from developed countries, because government ministries are more likely to heed the advice provided by an expert from a developed than from a developing country. The above report ties the number of UNDP-funded Third World experts to the fact that regional UN organizations having recruitment responsibilities are themselves staffed with Third World officials who tend to recruit compatriots.

A government official in another country went even further, saying that nationals of a particular country were over-represented among UNDP experts, and this he attributed to the favoritism shown by a UNDP official at New York Headquarters for that official's own countrymen. The host government official concluded that individuals from a particular region should not be in charge of UNDP's bureau for that region. It should be noted, however, that in still another country, the complaint was that a UN agency had recruited too many advisers from a specific developed country (not the United States). Effectiveness of UN aid was suffering because the advisers were imposing preconceived ideas on the dissimilar conditions found in the recipient country.

The second report cited above also noted that developed world experts usually limit their stay to two or three years, whereas Third World experts often attempted to extend their employment contracts over a much longer period. The report stated that the longer an expert remains in a particular job, the less his role is advisory. He becomes treated as a regular staff member of the ministry and is often assigned tasks not related to the UN program for which he is responsible. If an expert fails to "try to work himself out of his job," there is an adverse effect upon the counterpart training program. This particular country report concludes that UN programs which supply experts to this country would do well to require experts to link their service more to the training of host nationals and then to leave after a set period. This problem was called "careerism" by another U.S. embassy which described some of the experts in its host country as making themselves indispensable, thus leading to semi-permanent positions.

B. Funding Issues

Many reports noted the problems that recipient countries and UNDP Resident Representatives face because of the UNDP's need to cut the Indicative Planning Figure allocation for the period 1982-1986. One report suggested that UNDP budgeting/funding should be more reliable and stable. The report recommended that perhaps pledges should be made two years in advance or through a two-year "rolling" contribution to avoid the disruption of project activities that results when planned resources do not materialize. (Due to policy and legislative considerations, the United States does not plan such multi-year pledging from its own resources.) Another report noted that budget uncertainties also affect the influence of the Resident Representative in dealing with sensitive issues. Such budget reductions adversely affect programs, which, a third report noted, were already too small to address development problems adequately.

C. Implementing Agencies

The reports indicated that the UN's implementing agencies were performing in a reasonable manner. A few reports cited isolated difficulties, involving headquarters actions, field management, and even the basic rationale of an agency. For example, one report noted that technicians financed by UN specialized agencies had less backstopping and support than those financed by UNDP. In some cases, specialized agency-funded experts lost their sense of purpose during assignments due to lack of contact with the home office. The report concluded, however, that the FAO projects seemed to be an exception. (Perhaps because the FAO normally has an in-country representative.) Two other reports supported the point that backstopping by various UN implementing agencies was often inadequate or very weak.

Another report stated that UN staff in that host country criticized the growing top-heaviness of UN agency headquarters compared to field operations. With increasing financial constraints, agencies have had to shelve projects and reduce field personnel, but the respective headquarters have not contracted.

Another report noted a serious lack of cooperation on the part of the World Health Organization (WHO). WHO did not provide timely information that would be valuable to other donor agencies in the planning of their programs. This led to a duplication of effort. According to this report, WHO saw itself as the principal adviser to the host government in all health activities, but did not actively seek the recommendations of other donors. An additional weakness in the WHO program was in supply and logistics. A large quantity of drugs expired and equipment rusted away in the warehouse because they were not distributed. The logistics/supply problem also came up in another report, which noted that WHO had provided vaccines with early expiration dates. A third report noted that the quality of execution of WHO projects was generally poor when compared to other UN agencies.

This last report also made the same point about the UN Industrial Development Organization (UNIDO). In addition, two reports mentioned understaffing as a problem with UNIDO and the World Food Program (WFP).

A report from a country in West Africa's Sahel region raises a question about the UN Sudano-Sahelian Organization (UNSO). The report notes uncertainty about what UNSO can contribute that is not already being performed by other UN agencies. The report concludes that UNSO's mandate and performance need an in-depth review, especially vis-a-vis other UN agencies.

Finally, another report noted that one observer saw no significant differences between the quality of implementation of UNDP-funded projects and projects financed directly by implementing agencies except for the Economic Commission for Africa (ECA). He said ECA did not properly manage its projects or keep UNDP informed. He believed that this was due to ECA's political rather than professional orientation.

D. Net-contributors

Finally there is the problem of countries receiving UNDP assistance who should, but have not yet, become net-contributors, i.e., where their contributions to UNDP budgets equal or exceed the cost of assistance they receive from UNDP. Several reports from wealthier developing countries questioned how long those countries could continue to justify concessional UN assistance. (In fact, the June 1985 UNDP Governing Council took an unprecedented step towards resolving this problem by requiring that henceforth 19 countries will have to reimburse UNDP for the costs of all UNDP-funded technical assistance as well as for the costs of operating the local UNDP field office. In addition, a less-prosperous group of countries will have to move progressively towards a net-contributor status.)

SUMMARY OF REPORT RESULTS*

1. Host Country Support	
A. Host country attitude towards UN system assistance.	Excellent: 28 (31%) Good: 58 (63%) Poor: 1 (1%) Unanswered: 5 (5%)
2. UN System Development Effectiveness	
A. Relevancy of UNDP country programs to local needs.	Greatly relevant: 58 (63%) Moderately revelant: 26 (28%) Unanswered: 8 (9%)
B. Relevancy of UN system programs funded independently of UNDP to local needs.	Greatly relevant: 25 (27%) Moderately revelant: 42 (46%) Unanswered: 25 (27%)
C. Host country assessment of UN system's performance.	Good: 64 (70%) Poor: 3 (3%) Unanswered: 25 (27%)
D. UNDP's project evaluation procedures.	Good: 43 (47%) Poor: 11 (12%) Unanswered: 38 (41%)
E. UN agencies's execution of UNDP-financed projects.	(Responses provided comments on various agencies.)
F. Do UN activities particularly benefit U.S. political and economic interests?	Yes: 31 (34%) No: 18 (19.5%) Unanswered: 43 (46.5%)

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* Based on 92 reports received between April 1982 and December 1984. The questionnaire contained about 40 questions, but for purposes of this analysis, the responses were aggregated under five major topics covering 14 points. A fifteenth point, "FAO and the Private Sector," was derived from a separate questionnaire involving 46 responses.

3. Coordination and UN Resident Representative	
A. Host country attitude towards UNDP's in-country coordination role.	Welcomed it: 26 (28%) Discouraged it: 22 (24%) Unanswered: 44 (48%)
B. UNDP coordination of non-UNDP-funded UN programs.	Good: 54 (59%) Poor: 13 (14%) Unanswered: 25 (27%)
C. UNDP coordination of the local activities of donors.	Good: 37 (40%) Poor: 19 (21%) Unanswered: 36 (39%)
D. Level of collaboration between USAID and the UN system.	Extensive: 12 (13%) Moderate: 33 (36%) Unanswered: 47 (51%)
4. UN Aid and the Private Sector	
A. Level of potential/actual involvment of U.S. companies in UN activities.	Extensive: 12 (13%) Moderate: 28 (31%) Limited/None: 29 (31%) Unanswered: 23 (25%)
B. Do UN activities promote indigenous private enterprise?	Yes: 46 (50%) No: 15 (16%) Unanswered: 31 (34%)
C. Benefits the U.S. and indigenous private sectors derive from FAO activities.	(This question was sent to over 110 countries independently of the rest of this questionnaire. Forty-six posts responded.)
5. Problems Identified	
A. Are you aware of any major problem areas?	Yes: 60 (65%) No: 16 (17.5%) Unanswered: 16 (17.5%)

ESTIMATED RETURN VALUE (EXPENDITURES ON INPUTS USED IN UNDP AND ITS PROJECTS) COMPARED TO VOLUNTARY CONTRIBUTIONS - 1985

UNITED STATES

Item	US $ Million
I. RETURNED VALUES	
- Project-related inputs:	
1. Project Personnel of US nationality	25.83
2. Equipment procured in US	27.32
3. Sub-contracts awarded to firms in US	4.59
4. Fellowship placements in US	8.05
5. Overhead payments to UN Agencies based in US	15.06
Sub-Total	80.85
II. UNDP SUPPORT BUDGET	
1. Professional staff of US Nationality	13.44
2. Staff payments at Headquarters	21.44
3. Payments for non-US Professional Staff based at Headquarters	27.16
4. General operating expenses	27.75
Sub-Total	89.79
TOTAL RETURN VALUE	170.64
Voluntary Contribution (VC) - UNDP and Funds	161.40
Return Value (RV)	170.64
RV as % of VC 105.73 %	

N.B.: The return flow does not reflect the multiplier effect of activities and expenditures in the United States (where UNDP has its Headquarters). It is therefore not fully representative of the economic benefits that the US derives from UNDP.

It is expected that the return flows to the US in 1986 would be at the same level as in 1985 ($170.64 million), while the US contribution dropped from $161.40 million in 1985 to $138.1 million in 1986.

RMU/February 1987

MR. GOODMAN: The Administration has evaluated UNDP field activities mainly through the use of questionnaires, cabled to U.S. field missions, which focus on specific U.N. field program, e.g. UNDP country programs, UNICEF field activities, UNEP Clearing House Program etc. The Evaluation and Planning Division of State's Bureau of International Organization Affairs is currently completing a desk study of U.N. system development assistance to the Sahel region of Africa, which will provide the basis for a questionnaire to U.S. field missions in Sahel countries.

UNITED NATIONS DEVELOPMENT PROGRAM

FINANCIAL RETURN TO THE UNITED STATES FROM UNDP

SENATOR INOUYE: The U.N. Development Program purchases goods and services from American corporations and hires consultants and experts from the United States.

What has been the financial return to the United States from UNDP during the past five years and how is this figure calculated?

MR. GOODMAN: See the attached chart on the estimated return value for 1985 (the most recent year which detailed data is available) and estimates for 1986. We have asked UNDP to provide us with an updated chart and will provide it to the Subcommittee as soon as it is received.

UNITED NATIONS DEVELOPMENT PROGRAM (UNDP)

SENATOR INOUYE: It has been brought to my attention that as of 1986, UNDP programs involving the South West African People's Organization (SWAPO) cost $3,369,710 as of 1986, including such projects as a SWAPO Agricultural Project Formulation Mission.

What is the SWAPO Agricultural Project Formulation Mission and what have been its accomplishments?

MR. GOODMAN: UNDP provided approximately $25,000 for a mission to determine the precise requirements for UNDP assistance in terms of technical expertise, farm implements, and other inputs for the development of Kwanza Sul farm in Angola and to prepare the related draft project document. This formulation mission project was completed in September 1987 and has resulted in a proposal for long-term assistance to SWAPO in agricultural development and food production at the Namibian farm in Kwanza Sul. A new project, "Assistance to Agricultural Development in Kwanza Sul", has been formulated and approved.

SENATOR INOUYE: Did the Administration sanction this expenditure and are there any Americans involved in its oversight or operation?

MR. GOODMAN: The Administration did not sanction this expenditure. UNDP expenditure on behalf of SWAPO runs counter to U.S. views on the legtimacy of SWAPO. We are legally bound to withhold from our contribution to UNDP the U.S. pro rata share of expenditures for SWAPO. Americans are involved in the oversight of the project in the sense that the UNDP Administrator, Mr. William H. Draper, who is a U.S. Citizen, is ultimately responsible for all projects undertaken by UNDP.

SENATOR INOUYE: Is the UNDP continuing to provide financial support to SWAPO activities?

MR. GOODMAN: Yes, UNDP continues to provide financial support to SWAPO. In the Fourth Programming Cycle (1987-91) UNDP will provide approximately $5 million for projects in support of SWAPO in the areas of education, agriculture, and human resources development. To date, seven projects valued at $3.8 million have been approved. However, since the U.S. does not recognize the legitmacy of SWAPO, we withhold from our contribution to UNDP the U.S. pro rata share of these expenditures for SWAPO.

UNITED NATIONS DEVELOPMENT PROGRAM (UNDP)

ASSISTANCE TO COMMUNIST REGIMES

SENATOR INOUYE: It is my understanding that a significant amount of UNDP funds are used in support of programs in communist countries. Some of these programs include: "Civil Aviation Fellowships" in Afghanistan, "Introduction of Nuclear Techniques to the National Economy" in Cuba, or "Development and Implementation of New Methods in Bio-Engineering" in Bulgaria. I understand that the UNDP program in Afghanistan is projected to cost $28,406,152, and includes such projects as "Assistance to the National Literacy Campaign."

To what extent is the Department of State kept informed of these projects and provided an opportunity to assess their impact on United States foreign policy objectives?

MR. GOODMAN: Within applicable criteria agreed to unanimously by its Governing Council, UNDP provides technical assistance to all countries regardless of their political or economic structures. All UNDP country programs, including a tentative list of planned projects, are submitted for review and approval by the UNDP Governing Council of which the U.S. is a member. During the review of each country program, members of the Governing Council have an opportunity to raise objections to programs or projects.

In the case of Afghanistan, as agreed by the Council, individual projects are reviewed by the Administrator. Since the end of the Second Cycle (1976-1981) the Governing Council has not approved a new Afghan country program in recognition of the political-military situation in that country. We have also consulted with the Secretariat on issues affecting this program, such as security and the types of activities undertaken.

The U.S. continues to withhold the U.S. proportional share of funds spent in programs identified by legislation, e.g., Cuba.

SENATOR INOUYE: Please provide an account of all support provided by UNDP to projects in communist countries and the extend of United States participation?

MR. GOODMAN: The attached lists of projects were contained in the UNDP Compendium of Approved Projects as of September 30, 1986. There is no direct U.S. contribution to any of the projects listed in the attachment:

II. COUNTRY PROJECTS

AS OF 30 SEPTEMBER 1986

AFGHANISTAN

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contributio
GENERAL DEVELOPMENT ISSUES. POLICY AND PLANNING						
AFG-78-008 CONSULTANT AND PROGRAMME SUPPORT SERVICES	UNDP	5/78	12/86	741,416	0	0
AFG-83-004 STRENGHTENING LABOUR AND SOCIAL SECURITY DEPARTMENT	UN	1/84	12/87	1,593,526	0	0
AFG-83-022 DEVELOPMENT OF PLANNING CAPABILITY	UN	2/84	12/86	918,911	0	0
AFG-85-011 PROGRAMME LOGISTICAL SUPPORT	UNDP	12/85	12/86	214,000	0	0
AFG-85-012 UMBRELLA PROJECT FOR PROGRAMME SUPPORT	UNDP	1/86	12/89	300,150	0	0
AFG-86-009 MULTI-SECTORAL PRE-FEASIBILITY STUDIES	UNDP	4/86	12/87	539,000	0	23,709
TOTAL FOR GENERAL DEVELOPMENT ISSUES. POLICY AND PLANNING				4,307,003	0	23,709
AGRICULTURE, FORESTRY AND FISHERIES						
AFG-78-017 STRENGTHENING PLANT PROTECTION SERVICES	FAO	10/78	12/86	4,520,045	0	593,379
AFG-82-001 STRENGTHENING CENTRAL DIAGNOSTIC LABORATORY AND DEPARTMENT OF VETERINARY SERVICES	FAO	6/82	12/86	3,244,534	0	2,482,658
AFG-82-003 STRENGTHENING OF FORESTRY DEPARTMENT	FAO	6/82	12/86	822,750	0	893,418
AFG-82-004 SEED PRODUCTION AND TRAINING	FAO	6/82	12/87	1,528,057	0	539,802
AFG-82-008 ECOLOGICAL AND VEGETATIONAL MAPPING	FAO	7/83	12/86	741,418	0	0
AFG-83-020 SUPPORT TO INTEGRATED RURAL DEVELOPMENT	UN	7/84	12/86	1,198,210	0	163,636
AFG-84-013 IMPROVEMENT OF SERVICES FOR AGRICULTURAL MACHINERY	FAO	3/85	12/86	234,096	0	552,655
AFG-84-014 DAIRY DEVELOPMENT STUDY	FAO	6/85	12/86	72,560	0	9,709
TOTAL FOR AGRICULTURE, FORESTRY AND FISHERIES				12,361,670	0	5,235,257
INDUSTRY						
S AFG-81-802 TECHNICAL ASSISTANCE FOR THE ROLLING MILL IN PUL-I-ARKHI INDUSTRIAL AREAS	UNIDO	10/81	10/86	46,300	0	0
TOTAL FOR INDUSTRY				46,300	0	0
TRANSPORT AND COMMUNICATIONS						
AFG-80-004 CIVIL AVIATION FELLOWSHIPS	ICAO	9/80	12/87	1,749,275	0	0
AFG-83-001 TELECOMMUNICATION PLANNING AND MAINTENANCE	ITU	5/84	12/87	1,381,780	0	0
TOTAL FOR TRANSPORT AND COMMUNICATIONS				3,131,055	0	0
INTERNATIONAL TRADE AND DEVELOPMENT FINANCE						
AFG-84-015 TRADE DEVELOPMENT AND PROMOTION	ITC	9/85	12/87	1,389,200	0	79,671

* --- THIRD PARTY COST SHARING CONTRIBUTION (SEE SECTION IV).
L --- FINANCED FROM THE SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES.
P --- FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
S --- FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

II. COUNTRY PROJECTS

AS OF 30 SEPTEMBER 1986

AFGHANISTAN
(CONTINUED)

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
TOTAL FOR INTERNATIONAL TRADE AND DEVELOPMENT FINANCE				1,389,200	0	79,671
HEALTH						
AFG-82-705 TECHNICAL ASSISTANCE FOR KABUL WATER SUPPLY AND SEWAGE PROJECT, PHASE I	WHO	5/82	12/86	1,086,991	296,000	0
AFG-82-006 SUPPORT TO THE WATER SUPPLY AND SANITATION SECRETARIAT, S.P.C., PHASE I	WHO	11/82	12/86	260,838	0	0
TOTAL FOR HEALTH				1,347,829	296,000	0
EDUCATION						
AFG-79-002 ASSISTANCE TO THE NATIONAL LITERACY CAMPAIGN	UNESCO	5/79	12/86	1,252,488	0	0
AFG-79-004 SCIENCE EDUCATION	UNESCO	9/79	12/86	834,952	0	273,262
AFG-80-002 ENGLISH LANGUAGE TRAINING PROGRAMME	UNESCO	7/80	12/87	1,235,086	0	0
AFG-83-019 ASSISTANCE TO TEACHER EDUCATION	UNESCO	2/84	12/86	723,597	0	0
TOTAL FOR EDUCATION				4,046,123	0	273,262
SOCIAL CONDITIONS AND EQUITY						
AFG-84-016 STRENGTHENING OF THE FOCAL POINT FOR WOMEN'S DEVELOPMENT	UNDP	2/86	12/87	194,000	0	44,364
TOTAL FOR SOCIAL CONDITIONS AND EQUITY				194,000	0	44,364
CULTURE						
L AFG-75-022 STRENGTHENING GOVERNMENT CAPABILITY FOR PRESERVATION OF HISTORICAL MONUMENTS	UNESCO	2/77	1/86	369,972	0	0
TOTAL FOR CULTURE				369,972	0	0
SCIENCE AND TECHNOLOGY						
AFG-85-017 27.0R ENERGY AND OTHER RENEWABLE ENERGY DEVELOPMENT 24.0	UN	5/86	12/89	1,213,000	0	909,091
TOTAL FOR SCIENCE AND TECHNOLOGY				1,213,000	0	909,091

* --- THIRD PARTY COST SHARING CONTRIBUTION (SEE SECTION IV).
L --- FINANCED FROM THE SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES.
P --- FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
S --- FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

II. COUNTRY PROJECTS

AS OF 30 SEPTEMBER 1986

AFGHANISTAN
(CONTINUED)

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
TOTAL FOR AFGHANISTAN				28.406.152	296.000	6.565.354
OF WHICH						
IPF PROJECTS				27.989.880	296.000	6.565.354
SPECIAL MEASURES FOR LDC PROJECTS				369.972	0	0
SPECIAL INDUSTRIAL SERVICES (SIS) PROJECTS				46.300	0	0

* --- THIRD PARTY COST SHARING CONTRIBUTION (SEE SECTION IV).
L --- FINANCED FROM THE SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES.
P --- FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
S --- FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

II. COUNTRY PROJECTS

BULGARIA

AS OF 30 SEPTEMBER 1986

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
NATURAL RESOURCES						
BUL-81-005 DEVELOPMENT OF LOW-CALORIFIC -VALUE COAL TECHNOLOGIES	UNIDO	11/82	12/86	206.550	0	2.794.715
BUL-84-001 PARTICIPATION IF FIFTH WORLD CONGRESS ON WATER RESOURCES	UN	10/84	6/86	3.030	0	0
TOTAL FOR NATURAL RESOURCES				209.580	0	2.794.715
AGRICULTURE, FORESTRY AND FISHERIES						
BUL-77-012 ESTABLISHMENT OF AN INSTITUTE FOR PLANT INTRODUCTION AND GENETIC RESOURCES CONSERVATION	FAO	3/78	12/86	290.635	0	32.872.358
TOTAL FOR AGRICULTURE, FORESTRY AND FISHERIES				290.635	0	32.872.358
INDUSTRY						
BUL-78-001 CONSOLIDATION OF THE BULGARIAN SHIP HYDRODYNAMICS CENTRE	GVT	10/80	12/86	545.000	0	4.399.187
BUL-81-002 STRENGTHENING OF THE INSTITUTE FOR INDUSTRIAL CYBERNETICS AND ROBOTICS	UNIDO	9/81	12/86	334.928	0	121.951
BUL-81-008 NC/CAM METALWORKING DEVELOPMENT CENTRE, PHASE II	UNIDO	6/83	12/86	288.278	0	2.626.016
BUL-82-001 ASSISTANCE TO AUTOMATED PRODUCTION INSTRUMENTATION CENTRE (APIC)	UNIDO	9/82	12/86	210.000	0	4.878.049
BUL-84-002 CONSOLIDATION OF THE CENTER FOR CONTROL OF FOOT-AND-MOUTH DISEASE	FAO	4/85	12/86	100.000	0	602.276
S BUL-84-801 ASSISTANCE IN DESIGN AND IMPLEMENTATION OF MEASURING DEVICES FOR MACHINE TOOLS MOTIONS AND POSITIONS MEASUREMENTS	UNIDO	10/84	12/86	57.135	0	0
TOTAL FOR INDUSTRY				1.535.341	0	12.627.479
TRANSPORT AND COMMUNICATIONS						
BUL-81-007 EXPANDING THE ACTIVITIES OF THE RESEARCH CENTER FOR TELECOMMUNICATIONS	ITU	2/83	12/86	376.820	0	7.461.789
TOTAL FOR TRANSPORT AND COMMUNICATIONS				376.820	0	7.461.789
INTERNATIONAL TRADE AND DEVELOPMENT FINANCE						
BUL-83-002 EXPORT PROMOTION	ITC	5/84	12/86	42.000	0	0
TOTAL FOR INTERNATIONAL TRADE AND DEVELOPMENT FINANCE				42.000	0	0
SCIENCE AND TECHNOLOGY						

* --- THIRD PARTY COST SHARING CONTRIBUTION (SEE SECTION IV).
L --- FINANCED FROM THE SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES.
P --- FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
S --- FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

II. COUNTRY PROJECTS

AS OF 30 SEPTEMBER 1986

BULGARIA
(CONTINUED)

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
BUL-81-001 STRENGTHENING APPLIED RESEARCH IN THE CENTRE OF PHYTOCHEMISTRY AND CHEMISTRY OF NATURAL PRODUCTS, PHASE II	UNESCO	3/83	12/87	302,466	0	7,747,967
BUL-81-009 ADVANCED MANUFACTURING AND ENGINEERING METHODS	UNIDO	9/82	12/86	282,750	0	1,707,317
BUL-84-003 DEVELOPMENT AND IMPLEMENTATION OF NEW METHODS IN BIO-ENGINEERING	UNIDO	6/86	12/88	120,000	0	1,737,789
TOTAL FOR SCIENCE AND TECHNOLOGY				705,216	0	11,193,073
TOTAL FOR BULGARIA				3,159,592	0	66,949,414
OF WHICH						
IPF PROJECTS				3,102,457	0	66,949,414
SPECIAL INDUSTRIAL SERVICES (SIS) PROJECTS				57,135	0	0

* --- THIRD PARTY COST SHARING CONTRIBUTION (SEE SECTION IV).
L --- FINANCED FROM THE SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES.
P --- FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
S --- FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

CUBA

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
GENERAL DEVELOPMENT ISSUES, POLICY AND PLANNING						
CUB-79-005 INTERCAMBIO DE ASISTENCIA TECNICA Y EXPERIENCIA EN EL CAMPO DEL CTPD	UNDP	6/79	12/86	40,849	0	0
CUB-81-001 CREACION DE UN CENTRO DE INFORMACION SOBRE LA ECONOMIA MUNDIAL	GVT	12/82	12/86	150,000	0	515,658
TOTAL FOR GENERAL DEVELOPMENT ISSUES, POLICY AND PLANNING				190,849	0	515,658
NATURAL RESOURCES						
CUB-82-004 PLANTA PILOTO PARA MINERALES LATERITICOS	UN	5/82	12/86	2,523,000	0	4,203,947
TOTAL FOR NATURAL RESOURCES				2,523,000	0	4,203,947
AGRICULTURE, FORESTRY AND FISHERIES						
CUB-81-004 ASISTENCIA AL DESARROLLO DE LA ACUICULTURA EN CUBA	FAO	5/82	12/86	350,000	0	9,501,171
CUB-81-005 OBTENCION Y MEJORAMIENTO DE VARIEDADES DE CANA DE AZUCAR RESISTENTES A LA SEQUIA	FAO	7/82	12/86	89,982	0	213,307
CUB-81-007 DEVELOPMENT OF PASTURES AND FODDER CROPS	FAO	5/82	12/86	419,605	0	0
CUB-86-004 SUPPORT TO THE DEVELOPMENT OF SHRIMP FARMING	FAO	8/86	12/90	1,000,000	0	0
CUB-86-006 TRANSPLANT OF BOVINE EMBRYOS	FAO	9/86	12/91	600,000	0	0
P CUB-86-021 EMPLEO DE HERBICIDAS EN LA RECUPERACION DEL PLATANO AFECTADO POR EFECTOS DEL HURACAN "KATE"	UNDP	5/86	12/86	500,000	0	8,439,868
TOTAL FOR AGRICULTURE, FORESTRY AND FISHERIES				2,959,587	0	18,154,346
INDUSTRY						
CUB-76-003 FORMACION DE PERSONAL PARA LA INDUSTRIA HOTELERA Y TURISTICA	ILO	5/77	6/86	1,006,843	0	8,388,901
CUB-81-003 MINERAL BENEFICIATION PILOT PLANT, PHASE I	UNIDO	11/83	12/86	1,073,790	0	3,822,105
CUB-81-012 ASISTENCIA AL CENTRO NACIONAL DE ENVASES Y EMBALAJES	UNIDO	5/82	12/86	655,947	0	0
CUB-81-013 CENTRO PARA EL DESARROLLO DE LA INDUSTRIA FARMACEUTICA	UNIDO	6/82	12/86	639,000	0	0
CUB-81-014 ESTABLECIMIENTO DE UNA PLANTA DE DEMOSTRACION PARA LA FORMULACION DE PESTICIDAS	UNIDO	7/83	12/86	302,470	0	921,063
CUB-81-015 INDUSTRIAL DESIGN	UNIDO	10/82	12/86	499,846	0	0
CUB-82-003 CENTRO DE INVESTIGACIONES DEL BAGAZO	UNDP	8/82	12/86	898,484	0	6,110,263
CUB-82-008 DESARROLLO DE NUEVAS TECNOLOGIAS PARA LA PRODUCCION DE MATERIALES ARIDOS (FASE II)	GVT	1/83	12/86	241,670	0	731,145
S CUB-84-801 TECHNICAL ASSISTANCE IN DEVELOPMENT OF FOOTWARE TECHNOLOGY	UNIDO	12/84	12/86	74,350	0	0
S CUB-84-802 TECHNICAL ASSISTANCE TO THE NATIONAL CENTRE FOR BIOLOGICAL INVESTIGATION (CIB)	UNIDO	12/84	1/86	22,500	0	0

* --- THIRD PARTY COST SHARING CONTRIBUTION (SEE SECTION IV).
L --- FINANCED FROM THE SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES.
P --- FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
S --- FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

II. COUNTRY PROJECTS

CUBA
(CONTINUED)

AS OF 30 SEPTEMBER 1986

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
CUB-85-001 INTRODUCCION DEL SISTEMA COMFAR	UNIDO	5/85	3/86	16.000	0	20.263
CUB-85-002 MEJORAMIENTO DEL VALOR NUTRITIVO Y CONSERVACION DE RESIDUOS DE COSECHA MEDIANTE ENSILAJE	UNIDO	9/85	12/86	120.000	0	1,065,526
CUB-85-003 INVESTIGACION PARA LA SELECCION DE MATERIALES RESISTENTES A LA CORROSION (INDUSTRIA AZUCARERA)	UNIDO	10/85	12/86	60.000	0	881.579
S CUB-85-801 ASSISTANCE TO DEVELOP GYPSUM AND LIME PRODUCTION	UNIDO	2/85	1/86	19.000	0	0
S CUB-85-802 IMPROVED INDUSTRIAL MANAGEMENT THROUGH COMPUTER SUPPORT	UNIDO	8/85	12/86	41,042	0	0
CUB-86-009 ASISTENCIA A UNA PLANTA PILOTO PARA LA PRODUCCION DE ANTIBIOTICOS	UNIDO	8/86	12/86	17.000	0	0
TOTAL FOR INDUSTRY				5.487.942	0	21.940.836
INTERNATIONAL TRADE AND DEVELOPMENT FINANCE						
CUB-82-001 PROMOCION DE LAS EXPORTACIONES	ITC	11/84	12/86	77.263	0	0
TOTAL FOR INTERNATIONAL TRADE AND DEVELOPMENT FINANCE				77.263	0	0
HEALTH						
CUB-79-003 IDENTIFICACION Y REMEDIACION DE FACTORES FUNDAMENTALES QUE IMPIDEN EL DESARROLLO NORMAL DEL NINO	UNDP	6/79	12/86	145,143	0	1.892.500
CUB-80-001 RESEARCH AND CONTROL OF MARINE POLLUTION	UNESCO	6/80	12/86	1.020.270	0	3.029.900
TOTAL FOR HEALTH				1.165.413	0	4.922.400
CULTURE						
CUB-81-017 CENTRO NACIONAL DE RESTAURACION PARA LA EJECUCION DEL PLAN DE RESTAURACION Y SU SISTEMA DE FORTIFICACIONES	UNESCO	7/82	12/86	535.268	0	7.483.997
TOTAL FOR CULTURE				535.268	0	7.483.997
SCIENCE AND TECHNOLOGY						
CUB-77-001 INTRODUCCION DE LAS TECNICAS NUCLEARES A LA ECONOMIA NACIONAL	IAEA	4/77	12/86	1,605.449	0	0
CUB-84-005 OBTENCION DE IFN RECOMBINANTE EN FERMENTADORES	GVT	6/85	12/86	314.600	0	321,316
TOTAL FOR SCIENCE AND TECHNOLOGY				1.920.049	0	321.316

● --- THIRD PARTY COST SHARING CONTRIBUTION (SEE SECTION IV).
L --- FINANCED FROM THE SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES.
P --- FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
S --- FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

II. COUNTRY PROJECTS

AS OF 30 SEPTEMBER 1986

CUBA
(CONTINUED)

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
TOTAL FOR CUBA				14,859,371	0	57,542,499
OF WHICH						
IPF PROJECTS				14,202,479	0	49,102,631
SPECIAL PROGRAMME RESOURCES PROJECTS				500,000	0	8,439,868
SPECIAL INDUSTRIAL SERVICES (SIS) PROJECTS				156,892	0	0

@ --- THIRD PARTY COST SHARING CONTRIBUTION (SEE SECTION IV).
L --- FINANCED FROM THE SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES.
P --- FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
S --- FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

CZECHOSLOVAKIA

II. COUNTRY PROJECTS

AS OF 30 SEPTEMBER 1986

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
GENERAL DEVELOPMENT ISSUES, POLICY AND PLANNING						
CZE-83-001 INFORMATION SYSTEMS AND TRANSPORTATION	UN	7/84	12/86	39,180	0	0
TOTAL FOR GENERAL DEVELOPMENT ISSUES, POLICY AND PLANNING				39,180	0	0
AGRICULTURE, FORESTRY AND FISHERIES						
CZE-82-002 FELLOWSHIPS IN AGRICULTURE	FAO	9/82	12/86	60,000	0	0
TOTAL FOR AGRICULTURE, FORESTRY AND FISHERIES				60,000	0	0
INDUSTRY						
CZE-82-001 FELLOWSHIPS IN THE INDUSTRIAL SECTOR	UNIDO	12/82	12/87	100,000	0	45,367
CZE-82-006 NATIONAL TECHNICAL CONSULTANCY AND TRAINING CENTRE	UNIDO	10/83	12/87	799,000	0	20,077,220
S CZE-85-801 ADVISORY ASSISTANCE ON LOW AND NON-WASTE TECHNOLOGY FOR SOME CHEMICAL PROCESSES	UNIDO	10/85	12/86	72,400	0	0
TOTAL FOR INDUSTRY				971,400	0	20,122,587
TRANSPORT AND COMMUNICATIONS						
CZE-82-005 ASSISTANCE IN TELECOMMUNICATIONS TECHNIQUES	ITU	2/83	12/86	52,299	0	61,255
TOTAL FOR TRANSPORT AND COMMUNICATIONS				62,299	0	61,255
EDUCATION						
CZE-82-003 FELLOWSHIPS IN THE FIELD OF SCIENCE AND TECHNOLOGY	UNESCO	4/82	12/86	56,458	0	4,537
TOTAL FOR EDUCATION				56,458	0	4,537
TOTAL FOR CZECHOSLOVAKIA				1,169,317	0	20,178,379
OF WHICH						
IPF PROJECTS				1,096,917	0	20,178,379
SPECIAL INDUSTRIAL SERVICES (SIS) PROJECTS				72,400	0	0

* --- THIRD PARTY COST SHARING CONTRIBUTION (SEE SECTION IV).
L --- FINANCED FROM THE SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES.
P --- FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
S --- FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

II. COUNTRY PROJECTS

AS OF 30 SEPTEMBER 1986

HUNGARY

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
AGRICULTURE, FORESTRY AND FISHERIES						
HUN-82-004 PREVENTION OF NON-POINT SOURCE POLLUTION	FAO	10/82	12/86	317,020	0	928,793
HUN-82-010 FELLOWSHIPS AND STUDY TOURS IN THE FIELD OF AGRICULTURE	FAO	1/84	12/86	77,967	0	0
TOTAL FOR AGRICULTURE, FORESTRY AND FISHERIES				394,987	0	928,793
INDUSTRY						
HUN-82-006 STRENGTHENING RESEARCH ON NON-TOXIC INSECTICIDES	UNIDO	10/82	12/86	186,000	0	160,372
HUN-82-008 COMPLEX UTILIZATION OF LOW GRADE AND SECONDARY RAW MATERIALS FOR METALLURGY AND COAL SORTS OF LOW CALORIFIC VALUE	UNIDO	7/82	12/86	315,323	0	7,739,938
HUN-82-012 FELLOWSHIPS AND STUDY TOURS IN THE FIELD OF MICROELECTRONICS AND THEIR APPLICATION	UNIDO	12/83	12/86	76.500	0	0
S HUN-82-801 MICRO-CLIMATE LABORATORY FOR THE ELABORATION OF ENERGY-SAVING DIMENSIONING AND IN-DOOR AIR POLLUTION TESTING METHODS	UNIDO	7/82	7/86	66.525	0	0
TOTAL FOR INDUSTRY				644.348	0	7.900.310
TRANSPORT AND COMMUNICATIONS						
HUN-85-001 TRAFFIC CONTROL ON MOTORWAYS LEADING TO BUDAPEST	UNDP	2/85	12/86	27,150	0	42 127,377
TOTAL FOR TRANSPORT AND COMMUNICATIONS				27,150	0	42,127,377
HUMAN SETTLEMENTS						
HUN-80-001 ENERGY CONSERVATION IN THE OPERATION OF BUILDINGS	UNIDO	10/82	12/86	100,000	0	87.859
TOTAL FOR HUMAN SETTLEMENTS				100,000	0	87.859
HEALTH						
HUN-82-005 STRENGTHENING NATIONAL INSTITUTE OF HAEMATOLOGY AND BLOOD TRANSFUSION	WHO	9/82	12/86	180,000	0	8,094,870
TOTAL FOR HEALTH				180,000	0	8,094,870
EDUCATION						
HUN-82-003 INTRODUCTION OF COMPUTER AIDED DESIGN TRAINING AND EDUCATION	UNIDO	6/82	12/86	236,322	0	516,143
HUN-86-001 DEVELOPMENT AND ADAPTATION OF MICROCOMPUTER-BASED LIBRARY	UNESCO	6/86	12/86	7,000	0	16,586

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P --- FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
S --- FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

II. COUNTRY PROJECTS

HUNGARY
(CONTINUED)

AS OF 30 SEPTEMBER 1986

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP *	Third Party Contribution	Government Contribution
TOTAL FOR EDUCATION				243,322	0	532,729
SCIENCE AND TECHNOLOGY						
HUN-82-002 ESTABLISHMENT OF AN AUTOMATED RADIATION LABORATORY	IAEA	11/82	12/86	73,000	0	5,860,239
HUN-82-007 IMPROVEMENT OF THE EFFECTIVENESS OF THE SCIENTIFIC AND TECHNICAL INFORMATION SYSTEM	UNESCO	8/82	12/86	315,000	0	442,282
TOTAL FOR SCIENCE AND TECHNOLOGY				388,000	0	6,302,521
TOTAL FOR HUNGARY				1,977,807	0	65,974,459
OF WHICH						
IPF PROJECTS				1,911,282	0	65,974,459
SPECIAL INDUSTRIAL SERVICES (SIS) PROJECTS				66,525	0	0

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P --- FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
S --- FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

POLAND

II. COUNTRY PROJECTS
AS OF 30 SEPTEMBER 1986

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
GENERAL DEVELOPMENT ISSUES. POLICY AND PLANNING						
POL-82-008 FELLOWSHIPS IN THE FIELDS OF COMPETENCE OF UNDTCD	UN	3/83	12/86	278.000	0	16.800
POL-82-009 ASSISTANCE TO THE COUNTRY PROGRAMME AUTHORITIES	UN	3/83	12/87	9.766	0	556
TOTAL FOR GENERAL DEVELOPMENT ISSUES. POLICY AND PLANNING				287.766	0	17.356
NATURAL RESOURCES						
POL-82-002 LIQUEFACTION OF COAL	UNIDO	12/83	12/87	300.000	0	2.035.000
TOTAL FOR NATURAL RESOURCES				300.000	0	2.035.000
AGRICULTURE. FORESTRY AND FISHERIES						
POL-81-006 INTENSIFICATION OF PLANT BREEDING AND SEED PRODUCTION. PHASE II- TRITICALE BREEDING	FAO	7/82	12/86	429.056	0	642.500
POL-81-008 IMPROVEMENT OF PRODUCTION AND QUALITY OF MILK	FAO	6/82	12/87	560.000	0	1.000
POL-82-007 FELLOWSHIPS IN AGRICULTURE	FAO	1/83	12/86	150.000	0	10.000
TOTAL FOR AGRICULTURE. FORESTRY AND FISHERIES				1.129.056	0	653.500
INDUSTRY						
POL-82-004 STRENGTHENING RESEARCH AND DESIGN IN THE AGRICULTURAL MACHINERY INDUSTRY	UNIDO	6/83	12/86	299.325	0	403.500
POL-82-010 FELLOWSHIPS IN THE INDUSTRIAL SECTOR	UNIDO	3/83	12/86	156.000	0	8.500
TOTAL FOR INDUSTRY				454.325	0	412.000
TRANSPORT AND COMMUNICATIONS						
POL-81-003 TELECOMMUNICATION	ITU	11/81	12/86	27.517	0	0
POL-82-001 TRANS-EUROPEAN NORTH SOUTH MOTORWAY	UNDP	3/83	12/86	218.000	0	523.000
POL-82-005 IMPROVEMENT OF AIR TRAFFIC SYSTEM AND RELATED ACTIVITIES	ICAO	9/82	12/86	252.288	0	36.500
TOTAL FOR TRANSPORT AND COMMUNICATIONS				497.805	0	559.500
INTERNATIONAL TRADE AND DEVELOPMENT FINANCE						
POL-86-001 EXPORT PACKAGING INFORMATION SERVICES	ITC	10/86	12/86	40.100	0	0
TOTAL FOR INTERNATIONAL TRADE AND DEVELOPMENT FINANCE				40.100	0	0

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L — FINANCED FROM THE SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES.
P — FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
S — FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

II. COUNTRY PROJECTS

AS OF 30 SEPTEMBER 1986

POLAND
(CONTINUED)

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
HEALTH						
POL-82-003 CANCER CONTROL	WHO	11/83	12/87	600,000	0	0
POL-82-012 INTRODUCTION OF ENVIRONMENTAL AND HEALTH IMPACT ASSESSMENT PROCEDURES INTO PLANNING AND DECISION-MAKING PROCESS	WHO	9/83	12/86	75,000	0	175,000
TOTAL FOR HEALTH				675,000	0	175,000
EMPLOYMENT						
POL-82-006 DEVELOPMENT OF THE CENTRAL INSTITUTE FOR LABOUR PROTECTION	ILO	12/83	12/86	131,942	0	250,000
TOTAL FOR EMPLOYMENT				131,942	0	250,000
TOTAL FOR POLAND				3,415,994	0	4,102,355
OF WHICH IPF PROJECTS				3,415,994	0	4,102,355

* --- THIRD PARTY COST SHARING CONTRIBUTION (SEE SECTION IV).
L --- FINANCED FROM THE SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES.
P --- FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
S --- FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

ROMANIA

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
GENERAL DEVELOPMENT ISSUES. POLICY AND PLANNING						
ROM-85-001 TCDC ACTIVITIES	GVT	7/85	12/87	15,000	0	30,911
TOTAL FOR GENERAL DEVELOPMENT ISSUES. POLICY AND PLANNING				15,000	0	30,911
NATURAL RESOURCES						
ROM-82-001 ASSISTANCE FOR NUCLEAR POWER STATIONS	IAEA	2/82	12/86	706,050	0	53,201,472
ROM-82-002 EXPERIMENTAL OF SOLAR ENERGY APPLICATIONS	UN	11/82	12/86	400,000	0	8,466,421
ROM-82-005 RESEARCH AND UTILIZATION OF GEOTHERMAL RESOURCES, PHASE II	UN	7/82	12/86	150,000	0	9,218,031
ROM-82-006 DEVELOPMENT OF BLACK SEA OFFSHORE DRILLING AND PRODUCTION	UN	12/82	12/86	508,000	0	73,597,056
ROM-82-015 INCREASING THE NATIONAL OIL RECOVERY FACTOR	UN	2/83	12/86	161,100	0	20,239,190
ROM-54-001 SOIL EROSION CONTROL RESEARCH	FAO	9/85	12/87	77,300	0	915,547
TOTAL FOR NATURAL RESOURCES				2,002,450	0	165,637,717
INDUSTRY						
ROM-82-012 TECHNOLOGIES FOR CHEMICAL INDUSTRIES BASED ON BIOMASS	UNIDO	7/84	12/87	600,000	0	17,019,319
S ROM-84-801 ANTICORROSIVE PROTECTION MATERIALS MANUFACTURED FROM INDIGENOUS RAW MATERIALS USED IN THE ARTIFICIAL FIBRE INDUSTRY	UNIDO	6/84	12/86	55,413	0	0
S ROM-84-802 IMPROVEMENT OF PISTON RING MANUFACTURING TECHNOLOGY FOR INTERAL COMBUSTION ENGINES THROUGH FLAME-SPRAYED MOLIBDENUM	UNIDO	5/84	1/86	46,150	0	0
S ROM-85-801 ESTABLISHMENT OF A PILOT AIR POLLUTION MONITORING WARNING NETWORK IN AN INDUSTRIALIZED URBAN AREA	UNIDO	3/85	12/86	43,000	0	0
S ROM-85-802 ASSISTANCE IN THE MANUFACTURE OF RADIAL CAR TYRES AND TUBELESS RADIAL TRUCK TYRES	UNIDO	5/85	12/86	70,000	0	0
S ROM-85-804 INTRODUCTION OF MODERN TESTING TECHNOLOGY TO IMPROVE AGRICULTURE MACHINERY (TRACTORS)	UNIDO	7/85	12/86	46,100	0	0
TOTAL FOR INDUSTRY				860,663	0	17,019,319
TRANSPORT AND COMMUNICATIONS						
ROM-82-003 IMPROVEMENT OF ROAD MAINTENANCE PROGRAMMING	UN	7/82	12/86	306,000	0	2,759,890
ROM-82-004 UNDERGROUND RAILWAY CONSTRUCTION	UN	7/82	12/86	221,423	0	20,699,172
ROM-82-009 IMPROVEMENT OF TELECOMMUNICATIONS SERVICES, PHASE II	ITU	10/82	12/88	101,700	0	1,316,467
ROM-82-010 BUCHAREST PUBLIC TRANSPORT, CONTROL CENTRE	UN	12/82	12/86	300,000	0	4,376,817
TOTAL FOR TRANSPORT AND COMMUNICATIONS				929,123	0	29,152,346

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P --- FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
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II. COUNTRY PROJECTS

AS OF 30 SEPTEMBER 1986

ROMANIA
(CONTINUED)

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
HEALTH						
ROM-79-003 ASSISTANCE TO OPHTHALMOLOGY AND CORNEA GRAFTS UNIVERSITY CLINIC, BUCHAREST	WHO	4/80	12/86	80,000	0	2,207,912
TOTAL FOR HEALTH				80.000	0	2.207,912
SCIENCE AND TECHNOLOGY						
ROM-82-008 ASSISTANCE IN COMPUTER AIDED MANAGEMENT INFORMATION AND DESIGN SYSTEM IN VALEA JIULUI COAL MINES	UN	3/83	12/86	550.000	0	3.219,871
ROM-82-013 TECHNOLOGIES FOR MICROWAVE APPLICATION	ITU	5/84	12/86	100,000	0	2,621,895
TOTAL FOR SCIENCE AND TECHNOLOGY				650.000	0	5,841,766
TOTAL FOR ROMANIA				4.537.236	0	219.889.971
OF WHICH						
IPF PROJECTS				4.276.573	0	219.889.971
SPECIAL INDUSTRIAL SERVICES (SIS) PROJECTS				260.663	0	0

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II. COUNTRY PROJECTS

VIET NAM

AS OF 30 SEPTEMBER 1986

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
GENERAL DEVELOPMENT ISSUES, POLICY AND PLANNING						
VIE-80-001 PROGRAMME SUPPORT	UNDP	2/82	12/86	909,920	0	0
TOTAL FOR GENERAL DEVELOPMENT ISSUES, POLICY AND PLANNING				909,920	0	0
NATURAL RESOURCES						
VIE-80-021 HYDRAULIC RESEARCH	UN	7/85	12/86	16,200	0	0
VIE-79-023 STRENGTHENING OF THE NATIONAL GEODESY AND CARTOGRAPHY SERVICES (SOUTHERN REGION BRANCH OFFICE)	UN	3/81	12/86	1,925,129	0	0
VIE-80-024 GEOLOGICAL RESEARCH AND ANALYSIS	UN	4/82	12/88	1,496,682	0	0
VIE-80-044 RESTORATION OF POWER GENERATION CAPACITY	UN	6/81	12/87	3,443,189	0	0
VIE-81-004 GROUNDWATER EXPLORATION IN THE RED RIVER VALLEY AND THE MEKONG DELTA	UN	12/81	12/86	1,797,403	0	0
VIE-82-003 CONTRIBUTION TO THE INSTITUTIONAL COSTS OF THE MEKONG COMMITTEE	GVT	11/82	12/86	367,500	0	0
VIE-83-004 UTILIZATION REMOTE SENSING DATA FOR ASSESSING AGRICULTURAL AND NATURAL RESOURCES PHASE II	FAO	12/84	12/87	994,930	0	0
VIE-85-004 REHABILITATION OF CARTOGRAPHIC PRINTING FACILITIES OF STATE DEPARTMENT OF GEODESY AND CARTOGRAPHY	UN	5/85	12/86	55,550	0	0
TOTAL FOR NATURAL RESOURCES				10,096,583	0	0
AGRICULTURE, FORESTRY AND FISHERIES						
VIE-80-004 MAIZE RESEARCH AND DEVELOPMENT	FAO	9/83	12/87	161,633	0	0
VIE-80-005 HORTICULTURE: RESEARCH DEVELOPMENT AND TRAINING	FAO	9/83	12/88	778,398	0	0
VIE-80-007 TRAINING IN RUBBER DEVELOPMENT	FAO	10/82	12/87	2,087,000	0	0
VIE-80-008 COFFEE REHABILITATION AND IMPROVEMENT	FAO	12/83	12/87	1,567,000	0	0
VIE-80-009 DEVELOPMENT OF THE COCONUT INDUSTRY	FAO	9/83	12/88	2,000,000	0	0
VIE-80-010 PRODUCTION DE SEMENCE	FAO	6/81	12/86	3,243,000	0	0
VIE-80-011 DEVELOPMENT OF SERICULTURE	FAO	5/83	12/87	233,144	0	0
VIE-80-012 VETERINARY RESEARCH AND VACCINE PRODUCTION	FAO	6/81	12/86	3,075,849	0	0
VIE-80-013 MILK PRODUCTION	FAO	9/86	12/89	1,300,000	200,000	0
VIE-80-014 POST-HARVEST PROTECTION OF AGRICULTURAL FOOD PRODUCTS	FAO	4/81	12/86	3,015,400	0	0
VIE-80-016 INSTITUTE OF FOREST ENGINEERING	FAO	11/82	12/86	1,251,630	0	0
VIE-80-018 SPECIAL FOREST PRODUCTS RESEARCH WITH PARTICULAR REFERENCE TO SHELL LAC	FAO	5/82	12/87	600,000	0	0
VIE-80-019 LOGGING TRAINING AND DEVELOPMENT	FAO	4/81	12/86	3,573,110	0	341,880
VIE-82-001 DEVELOPMENT OF AGRICULTURAL RESEARCH	FAO	1/83	12/87	280,628	0	0

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II. COUNTRY PROJECTS

AS OF 30 SEPTEMBER 1986

VIET NAM
(CONTINUED)

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
VIE-82-002 FOREST MANAGEMENT PLANNING AND IMPLEMENTATION	FAO	8/83	12/89	1,459,900	0	0
VIE-82-009 STRENGTHENING PLANT PROTECTION SERVICES, PHASE II	FAO	9/83	12/87	2,632,739	0	0
VIE-83-002 SHRIMP DEVELOPMENT NGHIA BINH	FAO	12/85	12/87	219,360	0	0
VIE-84-001 COTTON IMPROVEMENT AND EXTENSION	FAO	5/85	12/88	1,200,000	0	0
VIE-85-005 CASHEW NUT DEVELOPMENT	FAO	8/85	12/86	30,000	0	0
VIE-85-011 MUSHROOM PRODUCTION	FAO	10/85	12/86	15,000	0	0
VIE-85-016 VEGETABLE PRODUCTION	FAO	10/85	12/86	15,000	0	0
TOTAL FOR AGRICULTURE, FORESTRY AND FISHERIES				28,748,791	200,000	341,880
INDUSTRY						
VIE-76-013 INSTITUTE FOR STANDARDIZATION AND QUALITY CONTROL	UNIDO	11/79	12/86	1,176,852	0	333,333
VIE-80-017 TRAINING IN MODERN FORESTRY PRACTICE	FAO	2/85	12/87	112,800	0	0
VIE-80-027 PRODUCTION OF WOODEN TEXTILE INDUSTRY ACCESSORIES	UNIDO	11/84	12/86	94,800	0	0
VIE-80-028 MANUFACTURE OF MAGNETIC MATERIALS AND COMPONENTS FOR USE IN ELECTRONIC ENGINEERING	UNIDO	6/83	12/87	823,795	0	0
VIE-80-030 ESTABLISHMENT OF A PILOT PLANT FOR SCIENTIFIC GLASS PRODUCTS	UNIDO	7/82	12/86	17,648	0	0
VIE-80-032 PILOT PRODUCTION OF MEDICINES USING INDIGENOUS RAW MATERIALS	UNIDO	12/85	12/87	1,178,611	0	103,333
VIE-80-033 ASSISTANCE TO THE FOOD CANNING INDUSTRY	UNIDO	7/85	12/86	17,000	0	0
VIE-80-037 REPAIR AND MAINTENANCE CENTRE AND SPARE PARTS PRODUCTION FOR SUGAR AND RICE MILLS	UNIDO	5/81	12/87	1,583,404	0	0
VIE-80-039 ELECTRONIC AND OPTICAL MAINTENANCE REPAIR CENTRE	UNIDO	4/82	12/87	1,316,520	0	826,133
VIE-80-040 PRODUCTION OF BAKER'S YEAST IN HANOI	UNIDO	6/81	12/86	619,325	0	0
VIE-81-002 REHABILITATION AND MODERNIZATION OF PULP AND PAPER MILLS	UNIDO	6/81	12/86	1,074,464	0	0
VIE-81-006 STANDARDIZATION METROLOGY QUALITY TESTING AND CALIBRATION SERVICES	UNIDO	4/82	12/86	1,226,867	0	333,333
VIE-82-004 REPAIR AND MAINTENANCE CENTRE AND SPARE PARTS PRODUCTION FOR RICE MILLS	UNIDO	1/84	12/88	1,683,416	0	0
VIE-83-001 NATIONAL CENTRE OF METROLOGY	UNIDO	11/83	12/87	750,000	0	200,000
VIE-84-002 INSTITUTE FOR TROPICAL TECHNOLOGY AND ENVIRONMENTAL PROTECTION	UNIDO	11/84	12/86	125,198	0	0
VIE-84-006 PRODUCTION OF STANDARDS AND REAGENTS FOR QUALITY CONTROL OF MEDICINES	UNIDO	8/85	12/86	60,600	0	0
VIE-84-010 DEVELOPMENT OF INDUSTRIAL PRODUCTION OF ESSENTIAL OILS,AROMAS,AND FLAVOURS	UNIDO	11/85	12/86	44,300	0	0
S VIE-84-802 QUALITY IMPROVEMENT OF CAST SPARE PARTS SUPPLIED FOR TEXTILE PLANTS BY FOUNDRY INDUSTRIES	UNIDO	7/84	1/86	60,000	0	0
VIE-85-001 PILOT PRODUCTION OF DYES AND PIGMENTS	UNIDO	11/85	12/86	30,000	0	0
VIE-85-003 PROGRAMMING MISSION IN THE FIELD OF AGRICULTURE,FORESTRY AND FISHERIES	FAO	3/85	12/86	146,087	0	0

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S --- FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

II. COUNTRY PROJECTS

AS OF 30 SEPTEMBER 1986

VIET NAM
(CONTINUED)

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
VIE-85-006 TECHNICAL ASSISTANCE FOR THE ESTABLISHMENT AND OPERATION OF A LABORATORY FOR BAUXITE PROCESSING TECHNOLOGY	UNIDO	8/86	12/88	1,106,500	0	72,000
VIE-85-010 TECHNOLOGY TRANSFER FOR THE DESIGN,TEST AND PILOT MANUFACTURE OF HIGH VOLTAGE POWER CAPACITORS FOR ELEC. DISTRIBUTION	UNIDO	8/86	12/89	2,292,500	0	791,928
VIE-85-013 LEATHER INDUSTRY RESEARCH CENTRE	UNIDO	5/86	12/86	54,000	0	0
VIE-85-015 PROGRAMMING MISSION IN INDUSTRY	UNIDO	4/85	12/86	87,900	0	0
VIE-86-031 ASSISTANCE IN PREPARATION OF PILOT AND INDUSTRIAL-SCALE PRODUCTION OF SPONGE IRON	UNIDO	5/86	12/86	53,500	0	0
S VIE-86-068 ASSISTANCE TO TEXTILE INDUSTRIES IN MANUFACTURING CAST SPARE PARTS FOR IMPROVED EQUIPMENT MAINTENANCE	UNIDO	6/86	12/86	29,800	0	0
TOTAL FOR INDUSTRY				15,755,777	0	2,660,060
TRANSPORT AND COMMUNICATIONS						
VIE-79-003 TRAINING FOR SELECTED MAINTENANCE PERSONNEL OF THE GCAA-VIETNAM	ICAO	4/80	12/87	602,312	0	5,367
VIE-80-054 REPAIR AND MAINTENANCE OF DIESEL LOCOMOTIVES	UN	10/81	12/88	1,418,744	0	0
VIE-82-005 REACTIVATION OF THE HANOI AND HO CHI MINH FLIGHT INFORMATION REGIONS AND DEVELOPMENT OF A NATIONAL AVIATION PLAN	ICAO	11/82	12/86	415,408	0	0
VIE-84-004 DEVELOPMENT OF CIVIL AVIATION FACILITIES	ICAO	12/85	12/86	82,926	0	0
VIE-84-005 REINFORCEMENT OF THE CIVIL AVIATION TRAINING CENTRE	ICAO	12/85	12/87	110,415	0	0
TOTAL FOR TRANSPORT AND COMMUNICATIONS				2,629,805	0	5,367
INTERNATIONAL TRADE AND DEVELOPMENT FINANCE						
VIE-80-057 ESTABLISHMENT OF A TRADE INFORMATION SERVICE	ITC	12/84	12/87	708,680	0	0
VIE-82-008 QUALITY CONTROL AND PRE-SHIPMENT INSPECTION OF EXPORT PRODUCTS	ITC	12/84	12/87	311,510	0	0
VIE-84-009 DEVELOPMENT OF EXPORT PACKAGING	ITC	5/85	12/86	61,600	0	0
TOTAL FOR INTERNATIONAL TRADE AND DEVELOPMENT FINANCE				1,081,790	0	0
HEALTH						
VIE-80-049 ENVIRONMENTAL PROTECTION	WHO	11/85	12/88	837,800	0	1,000,000
VIE-82-011 HANOI URBAN WATER SUPPLY	UNDP	1/84	12/86	128,718	0	0
TOTAL FOR HEALTH				966,518	0	1,000,000

* --- THIRD PARTY COST SHARING CONTRIBUTION (SEE SECTION IV).
L --- FINANCED FROM THE SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES.
P --- FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
S --- FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

II. COUNTRY PROJECTS

AS OF 30 SEPTEMBER 1986

VIET NAM
(CONTINUED)

Project Number and Title	Executing Agency	Date Approved	Estimated Completion Date	Estimated Project Cost		
				UNDP	Third Party Contribution	Government Contribution
EDUCATION						
VIE-80-062 UPGRADING OF THE FACULTY OF BIOLOGY AND AGRICULTURAL TECHNIQUES. HANOI TEACHER TRAINING COLLEGE	UNESCO	12/83	12/87	500,000	0	92,667
TOTAL FOR EDUCATION				500,000	0	92,667
HUMANITARIAN AID AND RELIEF						
P VIE-85-002 EMERGENCY RECONSTRUCTION OF SEA DYKES IN NGHIA BINH PROVINCE	UN	7/85	12/86	200,000	0	1,016,667
P VIE-85-017 EMERGENCY RELIEF ASSISTANCE FOR DAMAGES CAUSED BY TYPHOON NO.4 1985	UNDP	12/85	12/86	30,000	0	0
P VIE-85-018 EMERGENCY RELIEF ASSISTANCE FOR DAMAGES CAUSED BY TYPHOONS NO.7 AND 8	UNDP	12/85	12/86	30,000	0	0
P VIE-85-019 DISASTER PREVENTION AND REHABILITATION, BINH TRI THIEN PROVINCE	UNDP	2/86	12/86	40,000	0	0
TOTAL FOR HUMANITARIAN AID AND RELIEF				300,000	0	1,016,667
SCIENCE AND TECHNOLOGY						
VIE-80-045 SCIENTIFIC, TECHNOLOGICAL AND ECONOMIC INFORMATION	UNESCO	6/82	12/88	1,054,220	0	0
VIE-80-050 NEW METHODS IN CHEMICAL ANALYSIS	UNESCO	1/83	12/87	521,149	0	0
VIE-80-051 STRENGTHENING OF THE HYDROMETEOROLOGICAL SERVICE AND TYPHOON FORECASTING	WMO	4/85	12/86	1,500,000	0	0
VIE-84-003 TRAINING IN GEOTHERMAL HYDROGEOLOGICAL AND BUILDING MATERIALS INVESTIGATION	UNCHS	1/85	12/87	485,971	0	0
VIE-84-007 UPGRADING CAPABILITIES OF THE HO CHI MINH CITY POLYTECHNIC UNIVERSITY	UNESCO	8/85	12/86	5,391	0	0
VIE-84-011 SEISMOLOGICAL NETWORK	UNESCO	9/86	12/88	398,429	0	51,877
TOTAL FOR SCIENCE AND TECHNOLOGY				3,965,160	0	51,877
TOTAL FOR VIET NAM				64,954,344	200,000	5,168,518
OF WHICH						
IPF PROJECTS				64,564,544	200,000	4,151,851
SPECIAL PROGRAMME RESOURCES PROJECTS				300,000	0	1,016,667
SPECIAL INDUSTRIAL SERVICES (SIS) PROJECTS				89,800	0	0

* --- THIRD PARTY COST SHARING CONTRIBUTION (SEE SECTION IV).
L --- FINANCED FROM THE SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES.
P --- FINANCED FROM THE SPECIAL PROGRAMME RESOURCES.
S --- FINANCED FROM THE SPECIAL INDUSTRIAL SERVICES.

THE SPECIALIZED AGENCIES

SENATOR INOUYE: A United Nations Association (UNA) panel recommended recently that administration of the scattered U.N. social and economic programs could be better coordinated by creation of a "United Nations Commission" composed of the directors-general of all the principal specialized agencies. The Commission would meet regularly, ensuring greater cooperation among agencies that have often jealously guarded their own turf and automony.

Should a United Nations Commission bring together all the specialized agencies, coordinate their budgets, and centralize the appointment of their directors-general?

MR. GOODMAN: There already exists an Administrative Committee on Coordination (ACC) composed of the heads of UN agencies and chaired by the UN Secretary-General. The proposed Commission would have broader functions (e.g. preparation of a consolidated UN system program budget) but the major difference would be that Commissioners (i.e. heads of agencies) would be nominated by a new Ministerial Board (of not more than 25 governments) and confirmed by the General Assembly.

While the U.S. would support efforts to improve the effectiveness of the ACC, it would not support the UNA proposal to create new centralized bodies, such as the Ministerial Board and the Commission, as it would add new layers of bureaucratic control without significant benefits. Neither would the U.S. support the UNA proposal to centralize the appointment of specialized agency heads. We believe that:

(a) Agency heads should be primarily responsible for running their agencies rather than relying on deputies to do so while they serve as commissioners.

(b) Agency heads should continue to be accountable to the governing bodies of their respective agencies and be chosen by those agencies' member states.

SENATOR INOUYE: How much autonomy do the agencies need?

MR. GOODMAN: The agencies should have a large measure of autonomy, limited only by the need for coordination to (a) prevent duplication of functions among the agencies and (b) insure cross-organization cooperation and cross-fertilization. The U.S. would support measures to strengthen the ability of the Director-General for Development and International Economic Cooperation to insure that such coordination takes place as necessary.

SENATOR INOUYE: Should the U.N.'s technical cooperation programs be centrally accountable or administered?

MR. GOODMAN: The U.S. Government has been and is a strong supporter of UNDP's central funding and coordinating role with respect to UN system technical assistance. The central funding role of UNDP has been weakened by the increase in technical cooperation activities financed by specialized agencies from both assessed budget and extra-budgetary (e.g. bilaterally-funded trust funds) resources. The U.S. supports efforts to make UNDP more accountable for the use of its funds to strengthen UNDP's ability to hold specialized agencies accountable for implementing UNDP-funded projects effectively and to achieve greater integration at the field level of UN system assistance financed from all sources with respect to programming, management and evaluation. Specialized agencies, however, must be held accountable for technical cooperation activities funded from their own budgetary resources.

HABITAT

SENATOR INOUYE: What percentage of the entire HABITAT budget is the United States contribution?

MR. GOODMAN: For the biennium 1986-87, contributions to HABITAT's general resources amounted to $6.8 million. The U.S. contribution of $783,000 to the International Year of Shelter for the Homeless (IYSH) represented 11.5 percent of total contributions.

SENATOR INOUYE: What have other countries done to further the objectives of HABITAT?

MR. GOODMAN: Several of the Nordic countries, the Netherlands, and Japan are the major contributors to HABITAT's general resources. In 1987, Finland provided $773,380,; Japan $750,000; and the Netherlands, $488,823. Included in Finland's 1987 contribution to HABITAT, in addition to its regular annual contribution, was $324,245 to conduct cooperative work to develop national shelter strategies in developing countries. The Netherlands' contribution for 1987 included $97,005 for a training project and $96,000 for a project on women in human settlements development.

Since 1982, Sri Lanka has played a key role in preparations and follow-up to IYSH. In addition to undertaking a domestic program to implement the IYSH, Sri Lanka has proposed a number of farsighted measures, e.g., the extension of the IYSH to a global program targetted to assure shelter for all by the year 2000.

SENATOR INOUYE: Please provide a list of all projects which have been funded through this program, together with the location and amount expended on each project.

MR. GOODMAN: This information is not available in Washington. We have asked our Embassy in Kenya to get it from HABITAT's headquarters in Nairobi. We will provide the information to the Committee as soon as it is received.

SENATOR INOUYE: Please provide a list of all United States suppliers to the HABITAT program.

MR. GOODMAN: This information is not available in Washington. We have asked our Embassy in Kenya to get it from HABITAT's headquarters in Nairobi. We will provide the information to the Committee as soon as it is received.

SENATOR INOUYE: Please provide a list of all outside United States contractors, consultants, individuals or interests which have received remuneration from HABITAT funds.

MR. GOODMAN: This information is not available in Washington. We have asked our Embassy in Kenya to get it from HABITAT's headquarters in Nairobi. We will provide the information to the Committee as soon as it is received.

UNITED NATIONS DEVELOPMENT PROGRAM (UNDP)

MONITORING UNITED NATIONS SPENDING

SENATOR INOUYE: The United Nations system spends approximately $2 billion a year through its programs and agencies.

How does the United States monitor these expenditures?

MR. GOODMAN: The United States monitors these expenditures through the following means: Reports on program expenditures by the funding agencies are reviewed by the U.S. Government prior to meetings of the agencies' governing bodies and are discussed at these meetings by U.S. delegations.

The Evaluation and Planning Division of State's Bureau for International Organization Affairs reviews and analyses evaluation reports prepared by UN agencies and conducts ad hoc assessments of selected field programs in cooperation with the Agency for International Cooperation and appropriate domestic agencies.

The Agency for International Development obtains information on UNDP program performance from its field missions through cable questionnaires, in preparation for its review of UNDP country programs.

State's Bureau for International Organization Affairs conducts review of Joint Inspection Unit (JIU) reports which provide information on the UN system's efficiency and effectiveness in implementing programs.

UN HIRING PRACTICES

SENATOR INOUYE: In light of recent revelations concerning the Nazi past of former Secretary General Kurt Waldheim, what new investigative procedures have been instituted by the United Nations and its affiliated agencies to ensure that a thorough background check has been performed on all ranking officials?

MR. GOODMAN: In the cases of those individuals elected by the membership to head major organizations, such as the case of former Secretary General Waldheim, the degree to which background checks are made is up to the individual countries voting in the election. In light of the Waldheim case, member governments--certainly the United states and presumably others--will intensify in the future their scrutiny of the background of the leading candidates. In the general case of candidates considered for employment in the UN system, the organizations routinely perform standard reference checks concerning qualifications of the individuals and their general suitability for employment, but the UN has not instituted new procedures in this regard.

Under-Representation of U.S. Personnel In The United Nations and Affiliated Agencies

The United States remains seriously under-represented on the staffs of most of the specialized agencies. There also is a low percentage of U.S. personnel on the professional staffs of some of the U.N. programs supported by voluntary contributions. This is true even though the United Nations and some of the larger specialized agencies are supposed to allocate certain professional-level posts according to a geographic distribution formula and set "desirable ranges" for employment from each member country.

SENATOR INOUYE: How many U.S. citizens are employed by the United Nations, the specialized agencies, and the organizations funded through "International Organizations and Programs" account?

MR. GOODMAN: At the end of 1987 there were 3,165 Americans employed by the United Nations, the specialized Agencies, and IAEA. This includes 1,537 professionals representing approximately 10.3 percent of the 14,911 total professional staff. (See Attachment A; "International Organizations - Personnel Statistics as of December 31, 1987"):

ATTACHMENT A

INTERNATIONAL ORGANIZATIONS - PERSONNEL STATISTICS
as of December 31, 1987
(showing number of female staff (in parenthesis) when available)

ORGANIZATION	TOTAL			PROFESSIONAL STAFF			OTHER STAFF		
	TOTAL	U.S.	U.S.%	TOTAL	U.S.	U.S.%	TOTAL	U.S.	U.S.%
1. UNITED NATIONS									
UN Secretariat									
UN Regular Budget	13,768	1,631	11.85	4,991 (1179)	588 (238)	11.78 (20.19)	8,777	1,043	11.88
UNDP									
Regular Budget	3,557	152	4.27	662 (163)	79 (25)	11.93 (15.34)	2,895	73	2.52
Other	555	84	15.14	175 (42)	33 (13)	18.86 (30.95)	380	51	13.42
Subtotal	4,112	236	5.74	837 (205)	112 (38)	13.38 (18.54)	3,275	124	3.79
UNFPA	254	51	20.08	131 (44)	20 (8)	15.27 (18.18)	123	31	25.20
UNFPA	1,002	40	3.99	371 (73)	30 (7)	8.09 (9.59)	631	10	1.58
UNICEF	3,767	260	6.90	1,330 (405)	128 (50)	9.62 (12.35)	2,437	132	5.42
UNITAR	27	5	18.52	11 (2)	2 (1)	18.18 (50.00)	16	3	18.75
UNRWA	103	13	12.62	91 (2)	12 (1)	13.19 (50.00)	12	1	8.33
UN University	101	6	5.94	34 (5)	6 (0)	17.65 (0.00)	67	0	0.00
ICJ	48	0	0.00	18 (7)	0 (0)	0.00 (0.00)	30	0	0.00
ICSC	47	12	25.53	21 (6)	4 (2)	19.05 (33.33)	26	8	30.77
ITC	286	12	4.20	161 (23)	8 (6)	4.97 (26.09)	125	4	3.20
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Subtotal	5,635	399	7.08	2,168 (567)	210 (75)	9.69 (13.23)	3,467	189	5.45
TOTAL UNITED NATIONS	23,515	2,266	9.64	7,996 (1,95)	910 (351)	11.38 (17.99)	15,519	1,356	8.74

ORGANIZATION	TOTAL TOTAL	 U.S.	 U.S.%	PROFESSIONAL STAFF TOTAL	 U.S.	 U.S.%	OTHER STAFF TOTAL	 U.S.	 U.S.%
2. SPECIALIZED AGENCIES & IAEA									
FAO:									
Regular Budget	2,857	116	4.06	932 (129)	78 (16)	8.37 (12.40)	1,925	38	1.97
Other	3,292	117	3.55	1,382 (89)	79 (16)	5.72 (17.98)	1,910	38	1.99
Sub Total	6,149	233	3.79	2,314 (218)	157 (32)	6.78 (14.68)	3,835	76	1.98
World Food Program	665	57	8.57	335 (54)	39 (10)	11.64 (18.52)	330	18	5.45
ICAO:									
Regular Budget	628	22	3.50	246 (36)	18 (1)	7.32 (2.78)	382	4	1.05
Other	195	5	2.56	48 (8)	4 (0)	8.33 (0.00)	147	1	0.68
Sub Total	823	27	3.28	294 (44)	22 (1)	7.48 (2.27)	529	5	0.95
ILO:									
Regular Budget	1,799	78	4.34	730 (136)	60 (19)	8.22 (13.97)	1,069	18	1.68
Other	0	0	0	0 (0)	0 (0)	0 (0)	0	0	0
Sub Total	1,799	78	4.34	730 (136)	60 (19)	8.22 (13.97)	1,069	18	1.68
IMO:									
Regular Budget	236	4	1.69	88 (19)	2 (0)	2.27 (0.00)	148	2	1.35
Other	86	2	2.33	44 (3)	1 (0)	2.27 (0.00)	42	1	2.38
Sub Total	322	6	1.86	132 (22)	3 (0)	2.27 (0.00)	190	3	1.58

ORGANIZATION	TOTAL TOTAL	TOTAL U.S.	TOTAL U.S.%	PROFESSIONAL STAFF TOTAL	PROFESSIONAL STAFF U.S.	PROFESSIONAL STAFF U.S.%	OTHER STAFF TOTAL	OTHER STAFF U.S.	OTHER STAFF U.S.%
*ITU:									
Regular Budget	667	23	3.45	261 (38)	17 (0)	6.51 (0.00)	406	6	1.48
Tech. Coop. Budget	74	2	2.70	24 (3)	0 (0)	0.00 (0.00)	50	2	4.00
Sub Total	741	25	3.37	285 (41)	17 (0)	5.96 (0.00)	456	8	1.75
UNIDO									
Regular Budget	1,286	81	6.30	430 (76)	44 (16)	10.23 (21.05)	856	37	4.32
Other	0	0	0	0 (0)	0 (0)	0 (0)	0	0	0
Sub Total	1,286	81	6.30	430 (76)	44 (16)	10.23 (21.05)	856	37	4.32
UPU									
Regular Budget	140	1	0.71	59 (6)	1 (0)	1.69 (0.00)	81	0	0.00
Other	0	0	0	0 (0)	0 (0)	0 (0)	0	0	0
Sub Total	140	1	0.71	59 (6)	1 (0)	1.69 (0.00)	81	0	0.00
WHO:									
Regular Budget	2,964	151	5.09	1042 (196)	124 (35)	11.90 (17.86)	1922	27	1.40
Other	1,244	51	4.10	311 (71)	37 (11)	11.90 (15.49)	933	14	1.50
Int'l Agency/Research on Cancer	171	5	2.92	55 (13)	5 (4)	9.09 (30.77)	116	0	0.00
Subtotal	4,379	207	4.73	1,408 (280)	166 (50)	11.79 (17.86)	2,971	41	1.38

*1986 data.

ORGANIZATION	TOTAL			PROFESSIONAL STAFF			OTHER STAFF		
	TOTAL	U.S.	U.S.%	TOTAL	U.S.	U.S.%	TOTAL	U.S.	U.S.%
WIPO:									
Regular Budget	309	7	2.27	105 (14)	4 (2)	3.81 (14.29)	204	3	1.47
Other	0	0	0	0 (0)	0 (0)	0 (0)	0	0	0
Sub Total	309	7	2.27	105 (14)	4 (2)	3.81 (14.29)	204	3	1.47
WMO:									
Regular Budget	228	9	3.95	104 (24)	8 (1)	7.69 (4.17)	124	1	0.81
Other	54	4	7.41	24 (1)	3 (1)	12.50 (0.00)	30	1	0
Sub Total	282	13	4.61	128 (25)	11 (2)	8.59 (8.00)	154	2	1.30
IAEA:									
Regular Budget	1,779	164	9.22	695 (84)	103 (20)	14.82 (23.81)	1,084	61	5.63
Other	0	0	0	0 (0)	0 (0)	0 (0)	0	0	0
Sub Total	1,779	164	9.22	695 (84)	103 (20)	14.82 (23.81)	1,084	61	5.63
TOTAL SPECIALIZED AGENCIES & IAEA	18,674	899	4.81	6,915 (1,000)	627 (152)	9.07 (15.20)	11,759	272	2.31

	TOTAL			PROFESSIONAL STAFF			Other Staff		
	TOTAL	U.S.	U.S.%	TOTAL	U.S.	U.S.%	TOTAL	U.S.	U.S.%
3. INTER-AMERICAN ORGANIZATIONS									
Organization of American States (OAS)	1,046	179	17.11	578	128	22.15	468	51	10.90
Pan American Health Organization (PAHO)	943	113	11.98	299	63	21.07	644	50	7.76
Inter-American Indian Institute (IAII)	21	1	4.76	4	1	25.00	17	0	0.00
Inter-American Institute for Cooperation on on Agriculture (IICA)	856	17	1.99	338	17	5.03	518	0	0.00
Inter-American Tropical Tuna Commission (IATTC)	51	42	82.35	35	28	80.00	16	14	87.50
Pan American Institute of Geography and History (PAIGH)	13	1	7.69	5	0	0.00	8	1	12.50
Pan American Railway Congress Association (PARCA)	4	0	0.00	0	0	0	4	0	0.00
Postal Union of the Americas and Spain (PUAS)	22	0	0.00	8	0	0.00	14	0	0.00
TOTAL	2,956	353	11.94	1,267	237	18.71	1,689	116	6.87
4. OTHER REGIONAL ORGANIZATIONS									
North Atlantic Treaty Organization (NATO)	1,174	42	3.58	396	36	9.09	778	6	0.77
North Atlantic Assembly (NAA)	30	2	6.67	13	2	15.38	17	0	0.00
Colombo Plan Bureau (CPB)	30	1	3.33	4	1	0.00	26	0	0.00
Organization for Economic Cooperation and Develoopment (OECD)	1,727	141	8.16	659	79	11.99	1,068	62	5.81
South Pacific Commission (SPC)	129	5	3.88	53	4	7.55	76	1	1.32
TOTAL	3,090	191	6.18	1,125	122	10.84	1,965	69	3.51

	TOTAL			PROFESSIONAL STAFF			Other Staff		
	TOTAL	U.S.	U.S.%	TOTAL	U.S.	U.S.%	TOTAL	U.S.	U.S.%
5. OTHER INTERNATIONAL ORGANIZATIONS									
Customs Cooperation Council (CCC)	106	3	2.83	47	2	4.26	59	1	1.69
General Agreement of Tariffs and Trade (GATT)	352	11	3.13	143	8	5.59	209	3	1.44
Great Lakes Fisheries Commission	7	5	71.43	5	3	60.00	2	2	100.00
Hague Conference on Private International Law	11	1	9.09	9	1	11.11	2	0	0.00
*International Committee for Migration (ICM)	375	39	10.40	79	15	18.99	296	24	8.11
International Bureau of Exhibitions	4	0	0.00	1	0	0.00	3	0	0.00
International Bureau of the Permanent Court of Arbitration	5	0	0.00	4	0	0.00	1	0	0.00
International Bureau for the Publication of Customs Tariffs	26	0	0.00	16	0	0.00	10	0	0.00
International Bureau of Weights and Measures	66	2	3.03	58	2	3.45	8	0	0.00
International Center/Study of the Preservation of Cultural Property (ICCROM)	24	4	16.67	8	2	25.00	16	2	12.50
International Coffee Organization	86	2	2.33	27	0	0.00	59	2	3.39
International Commission for the Conservation of Atlantic Tunas	12	3	25.00	3	0	0.00	9	3	33.33
International Cotton Advisory Committee	8	2	25.00	5	2	40.00	3	0	0.00
International Fund for Agricultural Develoopment (IFAD)	229	28	12.23	89	8	8.99	140	20	14.29
International Hydrographic Bureau	17	2	11.76	5	1	20.00	12	1	8.33
*International Institute for Cotton	75	1	1.33	47	0	0.00	28	1	3.57

*1986 data.

	TOTAL			PROFESSIONAL STAFF			Other Staff		
	TOTAL	U.S.	U.S.%	TOTAL	U.S.	U.S.%	TOTAL	U.S.	U.S.%
International Institute for the Unification of Private Law (UNIDROIT)	20	0	0.00	9	0	0.00	11	0	0.00
International Jute Organization	23	0	0.00	5	0	0.00	18	0	0.00
International Lead & Zinc Study Group	6	0	0.00	3	0	0.00	3	0	0.00
International North Pacific Fisheries Commission	5	1	20.00	2	1	50.00	3	0	0.00
International Office of Epizootics	22	0	0.00	20	0	0.00	2	0	0.00
International Office of Vine and Wine	7	0	0.00	2	0	0.00	5	0	0.00
International Organization of Legal Metrology	6	0	0.00	3	0	0.00	3	0	0.00
International Pacific Halibut Commission	25	19	76.00	20	14	70.00	5	5	100.00
International Rubber Study Group	8	0	0.00	3	0	0.00	5	0	0.00
International Sugar Organization	23	0	0.00	7	0	0.00	16	0	0.00
International Natural Rubber Organization	36	2	5.56	8	2	25.00	28	0	0.00
International Trade Center	224	7	3.13	101	4	3.96	123	3	2.44
International Whaling Commission	13	0	0.00	3	0	0.00	10	0	0.00
International Wheat Council	26	1	3.85	10	0	0.00	16	1	6.25
Interparliamentary Union	24	3	12.50	15	3	20.00	9	0	0.00
Pacific Salmon Commission	16	2	12.50	10	2	20.00	6	0	0.00
World Tourism Organization	102	7	6.86	40	3	7.50	62	4	6.45
TOTAL	1,989	145	7.29	807	73	9.05	1,182	72	6.09

STATISTICAL SUMMARY

	ORGANIZATIONS	TOTAL			PROFESSIONAL STAFF			Other Staff		
		TOTAL	U.S.	U.S.%	TOTAL	U.S.	U.S.%	TOTAL	U.S.	U.S.%
1.	UNITED NATIONS	23,515	2,266	9.64	7,996 (1,951)	910 (351)	11.38 (17.99)	15,519	1,356	8.74
2.	SPECIALIZED AGENCIES & IAEA	18,674	899	4.81	6,915 (1,000)	627 (152)	9.07 (15.20)	11,759	272	2.31
	Sub total	42,189	3,165	7.50	14,911 (2,951)	1,537 (503)	10.31 (17.05)	27,278	1,628	5.97
3.	INTER-AMERICAN ORGANIZATIONS	2,956	353	11.94	1,267	237	18.71	1,689	116	6.87
4.	OTHER REGIONAL ORGANIZATIONS	3,090	191	6.18	1,125	122	10.84	1,965	69	3.51
5.	OTHER INTERNATIONAL ORGANIZATIONS	1,989	145	7.29	807	73	9.05	1,182	72	6.09
	GRAND TOTALS	50,224	3,854	7.67	18,110	1,969	10.87	32,114	1,885	5.87

SENATOR INOUYE: How many are in the professional category and what percentage of the total do they represent?

MR. GOODMAN: See above answer.

SENATOR INOUYE: How does this compare to the "desirable range" for U.S. citizens in positions subject to geographic distribution?

MR. GOODMAN: Other than in the United Nations, the United States remains underrepresented on the staffs of most specialized agencies. (See Attachment B; "1987 Personnel Statistics - Geographical Distribution of American Professional Staff"):

ATTACHMENT B

1987 PERSONNEL STATISTICS
GEOGRAPHIC DISTRIBUTION OF AMERICAN PROFESSIONAL STAFF

UN/SPECIALIZED AGENCIES WITH GEOGRAPHIC DISTRIBUTION FORMULAS

Organization	Percentage of U.S. Contribution to Assessed Budgets	Posts Subject to Geographic Distribution Authorized	Posts Subject to Geographic Distribution Filled	United States Desirable Range or Quota	Number of Americans in Posts Subject to Geographic Distribution
United Nations	25.00 %	2,700	2,594	327 - 442	414
FAO	25.00 %	1,048	858	198 - 220	75
ICAO	25.00 %	294	238	48	22
ILO	25.00 %	N/A	672	112 - 150	56
UNIDO	25.00 %	N/A	341	49 - 66	36
WHO	25.00 %	1,430	1,187	174 - 237	157
WIPO	3.91 %	87	83	6 - 8 [1/]	4
IAEA [2/]	25.00 %	N/A	590	125 - 209	95

1/ Desirable range is for North America. Canada has has one national employed.
2/ 1986 data.

UN SPECIALIZED AGENCIES WITHOUT SPECIFIC GEOGRAPHIC DISTRIBUTION FORMULAS

Organization	Percentage of U.S. Contribution to Assessed Budgets	All Professional Posts	Americans in Professional Posts	Percentage of Americans in Professional Posts
IMO	5.00 %	69	3	4.3 %
ITU[2]	7.63 %	203	13	6.4 %
UPU	5.11 %	59	1	1.7 %
WMO	25.00 %	102	9	8.8 %

2/ 1986 data.

SENATOR INOUYE: What factors contribute to the low level of U.S. representation?

MR. GOODMAN: United Nations employment of Americans has reached its lowest level since 1981 and the numbers continue to decrease. This is due, in part, to:

-- continuing international organization budgetary constraints which are resulting in hiring freezes or the filling of fewer vacant positions;
-- increased efforts by many international organizations both to appoint more nationals from developing countries and to fill new vacancies from within the organizations;
-- increased emphasis by other nations to place their nationals in these organizations;
-- the reluctance of some international organizations to hire additional American candidates and
-- the reluctance of many Americans to serve abroad.

SENATOR INOUYE: What steps have the the Office of U.N. System Recruitment, Bureau of International Organization Affairs, and the U.S. Missions taken to increase the employment of U.S. personnel in professional positions?

MR. GOODMAN: The Office of UN System Recruitment (IO/IR) accords a high priority to establishing and maintaining an effective system to recruit and place Americans in the United Nations and other international organizations. This Office provides American citizens with information about employment opportunities in the UN system, locates and screens applicants for specific vacancies, and initiates actions to assist their selection.

Increasing the employment of U.S. personnel in the UN system depends on (1) our ability to respond quickly, and with highly qualified candidates, to vacancies, and (2) the willingness of the UN Secretariats to hire qualified Americans. In the past year, IO/IR has improved its ability to respond quickly to vacancy announcements, and to provide highly qualified Americans for professional positions, by:

--prioritizing targets,
--computerizing data on potential applicants, and
--expanding interagency coordination and private sector networks.

Our Missions and Embassies also are playing key roles in recruitment by:

--ensuring that vacancy notices are sent to IO/IR as soon as they are available,
--identifying and monitoring key positions,
--assessing American candidates' prospects, and
--supporting the candidacies of individuals presented.

Both IO and the Missions continue to express USG concerns with the continued low level of U.S. representation on the staffs of the UN Secretariats.

INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA)

Technical Assistance vs Safeguards

The balance between the IAEA's technical assistance program and its safeguards functions, including the question of safequards financing, is a current source of concern among member states.

Members from the developing countries and the industrialized nations disagree on what sort of balance should be agreed to and how it can best be achieved. This is the issue that most clearly threatens to polarize the agency over the next decade along North-South lines, as has occurred in a number of other international organizations.

SENATOR INOUYE: What is the Administration's view on this issue?

MR. GOODMAN: For many years the two major programs of the IAEA have been funded in different ways. The safeguards program has been funded from the regular assessed IAEA budget, while the technical assistance program is funded largely by voluntary contributions (a small percentage of the administrative costs of the technical assistance program is funded from the assessed budget). Many developing country members of IAEA have opposed this difference in funding, arguing that voluntary contributions on an annual basis are unpredictable and do not provide a sound basis for long-term planning and multi-year projects. In response, the United States and a number of other major donors have long endeavored, with considerable success, to maintain rough parity in funding for safeguards and funding for technical assistance. This longstanding tacit agreement has worked well to promote IAEA's responsiveness to the needs of its 113 members. This agreement has been reinforced in recent years by a system of annual target figures for funding the technical assistance program. These so-called "Indicative Planning Figures" provide a broadly supported target for annual contributions to the technical assistance program. This approach has worked well since its adoption in 1981 to provide reliable and strong funding for the technical cooperation program, and has reinforced harmonious relations between the developed and developing members of IAEA.

The Administration strongly supports the system of Indicative Planning Figures, as well as the safeguards program, and does not foresee any need for change in this effective balance of IAEA programs.

SENATOR INOUYE: Does the Administration see a need for any changes in the safety and technical regimes followed by the IAEA?

MR. GOODMAN: We believe IAEA's work in nuclear safety is particularly noteworthy given the Agency's very effective response to the April, 1986 Chernobyl accident. We work closely with IAEA to set program priorities in the nuclear safety field as well as in other technical areas, and we believe IAEA's activities in these areas should continue.

Credibility of IAEA Safeguards

SENATOR INOUYE: What criteria does the IAEA use in establishing its safeguards?

MR. GOODMAN: There are a number of criteria which assist IAEA in defining safeguards techniques. States can accept the responsibility to accept IAEA safeguards on their nuclear facilities and material in several ways. The most common means of assuming this obligation is through adherence to the Nuclear Non-Proliferation Treaty (NPT) which provides for safeguards on all nuclear facilities under the jurisdiction or control of the state.

Once the obligation is assumed, the state and IAEA agree on detailed arrangements known as subsidiary agreements and facility attachments which specify precisely how safeguards inspections will be conducted at individual facilities. Among other factors, these agreements specify the interval, duration and intensity of safeguards inspections, as well as particular techniques such as on-site surveillance, record-keeping procedures and accountability which are carefully defined according to the type and complexity of the nuclear facility involved. While all of these measures are carefully defined with the state, the IAEA retains the right to conduct independent surprise inspections if sufficient justification warrants this. Safeguards implementation is continuously reviewed and evaluated to define effectiveness, and work is on-going to define and utilize increasingly sophisticated safeguards techniques necessary for increasingly diverse and complex nuclear facilities.

Tensions Between NPT and non-NPT Members

Recent IAEA actions suggest that NPT-related activities are somehow more legitimate than non-NPT-related activities. Non-treaty member states have come to view these activities as distortions of the IAEA statute and as a threat to the legitimacy of their programs and policies. This has had a corrosive effect on the agency, with non-NPT members resisting actions they regard as attempts to make the agency an arm of the NPT.

SENATOR INOUYE: How well has the IAEA succeeded in coordinating its efforts at non-proliferation with non-NPT countries?

MR. GOODMAN: The Director General of IAEA has consistently stressed that the IAEA exists to serve the needs of its members. Hence, every effort is made to accommodate the concerns and interests of all members on an equitable basis. Under the provisions of the Nuclear Non-Proliferation Treaty (NPT), the IAEA is charged with the responsibility of applying safeguards to all the nuclear facilities in the non-nuclear weapons states party to the Treaty. From time to time this responsibility has given rise to criticism from non-NPT parties that unwarranted attention is focused on a Treaty to which not all IAEA members are party. Notwithstanding this occasional criticism, the IAEA conducts its programs and activities with regard and concern for all its members, in a non-discriminatory manner. In return, the IAEA's 113 members have consistently regarded the Agency as one of the best-managed and effective international organizations.

Increased Politicization of the IAEA

One of the most urgent problems in the introduction into agency deliberations and activities of political issues irrelevant to the IAEA's mission, purpose, and objectives. This tends to erode confidence in the organization's ability to carry out effectively its mandated, technically based responsibilities.

SENATOR INOUYE: What success has the United States had in trying to reduce the politicization of the IAEA?

MR. GOODMAN: With 113 members, representing tremendous diversity in culture, political structure and interests, it is not possible to insulate the IAEA entirely from the myriad political issues which are so dominant in international relations. However, as a technical organization, with a clearly defined mandate to promote peaceful nuclear development in a manner which does not promote non-peaceful applications, the IAEA has not experienced the degree of political divisiveness experienced in other international organizations. The United States has consistently and effectively worked to minimize political controversy in IAEA proceedings, to promote continuation of the Agency's long-standing reputation as a highly competent, effective international organization.

Following the 1981 Israeli bombing of the Iraqi nuclear reactor, the IAEA general conference sought to suspend Israel from the agency in September, 1982. The move was unsuccessful. A resolution to suspend Israel and sponsored by the Moslem states and Cuba received a majority of the votes cast but was defeated because a vote to suspend required a "yes" vote by two-thirds of those voting, and the draft resolution in question fell short of that mark. Following this effort to suspend Israel, Iraq moved to seek rejection of the credentials of the Israeli delegation. The move did not succeed.

SENATOR INOUYE: Has Israel or its representatives to the IAEA been subjected to any recent discrimination or harassment as a result of the increasing political role of the organization?

MR. GOODMAN: Israel is a full member of IAEA, including all rights and privileges of membership in the Agency. Debate over Israel's status in IAEA was sparked by Israel's June 1981 attack on an Iraqi nuclear research reactor under IAEA safeguards. Many IAEA members believed IAEA was an appropriate forum for debate over this action, since the reactor was subject to IAEA's inspection. While initially intense, debate over this matter has subsided in recent years to a pro forma, lackluster debate promoted only by a few IAEA members. Israel has recently sought to increase its involvement in IAEA activities, and recently hosted an IAEA technical meeting in Israel. Israeli nationals serve on the IAEA's Secretariat staff and Israeli scientists participate routinely in IAEA programs of interest to them. Israel has experienced no recent discrimination or harassment in IAEA.

FOOD AND AGRICULTURE ORGANIZATION (FAO)

SENATOR INOUYE: I have a copy of a letter which Ambassador Eckert recently sent to FAO Director General Saouma. The letter raises a number of issues relating to Saouma's management style, the lack of transparency in the FAO budget, and possible improper uses of FAO funds.

What has been the official response of FAO to these allegations?

MR. GOODMAN: FAO Director General Edouard Saouma replied on March 25 to Ambassador Eckert's letter. Attached is a copy of that reply.

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

The Director-General

DG/88/311

Rome 25 March 1988

Dear Mr. Ambassador,

I refer to your letter of 3 March 1988, in which you ask a number of questions regarding the administration of this Organization.

I have no hesitation in meeting your requests for specific information that is of public record or may properly be released to individual Member Nations. I have instructed my staff to prepare a response to these queries. You will find the response attached to this letter.

On one or two points your letter appears to go beyond a request for information and to take the form of an audit investigation including a request for the submission of vouchers. We have nothing to hide. Nevertheless, the fact remains that the Member Nations have entrusted the responsibility for investigations of this nature to the External Auditor, who acts on their behalf. The reports of the External Auditor are submitted to the Finance Committee, Council and Conference. Currently, the External Auditor is the Comptroller and Auditor General of the United Kingdom. If there are grounds for an investigation to be carried out, it would seem to me that this should be done on behalf of all Member Nations by the External Auditor.

Should you feel it necessary to pursue the matter further, then I am sure you will agree that the Finance Committee would be well-placed to discuss the most appropriate procedure. Not only is the United States represented in the Committee, but I note that you have already sent copies of your letter to its members.

There are, on the other hand, one or two questions on matters not covered by the existing rules, where consequently the issue of an irregularity does not arise.

Throughout my entire term of office I have gone to great lengths to ensure the rigorous observance of the rules and regulations of the Organization. If you become aware of any irregularities I hope you will immediately inform me so that I may have the matter investigated by our Internal Auditors. We all have the strongest possible interest in ensuring that the taxpayers' money is indeed spent in a regular manner to carry out the programmes of the Organization.

Yours sincerely,

Edouard Saouma

Question 1: Director-General's "compensation package"

The remuneration of the Director-General of FAO is decided upon directly by the Conference. The last such decision was reflected in Conference Resolution 22/87, a copy of which is attached at Annex 1. It should be noted that the Director-General is neither provided with an official residence nor official residence staff. Like other Heads of UN Organizations, he has the use of an automobile and a chauffeur for official purposes.

With regard to "retirement benefits", the Director-General is a participant of the UN Joint Staff Pension Fund and as such his pension benefits are governed by the rules of the Pension Fund (Annex 2) which are approved by the UN General Assembly.

The net salary of the Deputy Director-General of FAO, is $64,535 p.a. (at dependency rate) and $58,276 p.a. (at single rate). The related Post Adjustment is $532.19 per index point (at dependency rate) and $480.73 per index point (at single rate) while the Representation Allowance is $6,000 p.a.

It should be noted that the salary of the grade level Deputy Director-General is decided by the UN General Assembly whereas the Representation Allowance is decided by the FAO Council. As in other UN Organizations, the Deputy Director-General has the use of an automobile and a chauffeur for official purposes. Finally, as an international civil servant, the Deputy Director-General's pension benefits are governed by the rules of the UN Joint Staff Pension Fund which are approved by the General Assembly.

Question 2: FAO Conference

Among the persons who travelled to Rome to attend the Council and

Conference, FAO paid for the travel of the Representative of each Member of the Council.

Under General Rule XXV.6 of the Basic Texts the travelling expenses (excluding per diem) of the representative of each Member of the Council are borne by the Organization. Annex 3 is a list of Member Nations whose travel fell in this category in November 1987. The travel of the Chairman of the Council is authorised by Conference Resolution 23/87 (Annex 3A).

Question 3: Motor Vehicles

FAO's vehicles (including both Headquarters and the Field) number some 5109 vehicles and 2985 motorcycles in all. The rules regarding procurement in general and the disposal of surplus property are set out in Manual Sections 502 and 504 respectively, copies of which are attached as Annex 4 and 5. If there is any specific case about which there is a concern, the Director-General would like to be informed and would be pleased to have the matter investigated.

Question 4: "Entertainment Allowance"

In addition to the Representation Allowances mentioned above, Assistant Directors-General have a flat-sum Representation Allowance of US$2,400 per annum. This allowance is decided upon by the Council as discussed in FAO Policy and Procedures Manual Section 308.24.

There is also an allocation for reimbursable hospitality expenses made to Assistant Directors-General, Regional Respresentatives, FAO Representatives and Division Directors. The standards and procedures governing this as well as reimbursement are covered in detail under Policy and Procedure Manual Section 363 (Annex 6). It should be noted that when allotments are issued to units the monies are not given to staff except by way of reimbursement of expenses *actually sustained, which must be supported by receipts as well as the names of those entertained.*

The average annual allocation, excluding Conference and Council Affairs, for Headquarters units and FAO Representative Offices is about US$1,500 while that in respect of the Regional Offices, Joint Divisions and Liaison Offices is about US$4,000.

Question 5: Technical Cooperation Programme

Reference is made to the TCP criteria and procedures which help to clarify TCP's purpose and modalities of action. These rules have assisted to ensure the Programme's efficiency and specificity since its inception in 1976. They have again been made explicit in Chapter 4 of the Programme of Work and Budget for 1988-89 (pages 225-231, Document C87/3 -Programme of Work and Budget for 1988-89).

For easy reference, copies are attached of the above relevant pages (Annex 7) which emphasize several points of particular relevance to the matter under review:

As regards the specific questions on TCP operations during the last biennium, a list is attached of all the TCP projects approved in 1986-87 (Annex 8). For the sake of clarity they have been grouped by category presented in alphabetical order, i.e.:

A	*Advisory Services*
C	*Cooperation amongst Developing Countries*
D	*Development Support*
E	*Emergency*
F	*Formulation*

I	*Investment*
T	*Training.*

In each category, projects are presented by Region, i.e.:

AF	*Africa*
AS	*Asia and Pacific*
NE	*Near East*
LA	*Latin America and Caribbean*
EU	*Europe*

and in each region countries are listed in alphabetical order.

Each project is characterized by a symbol, and by a title which summarizes its purpose. The size of the project is indicated by its total budget (last column), while the amounts given under the intermediate columns show the distribution among the different types of inputs required to achieve its objectives.

(i) All TCP projects respond to official requests presented by Member Governments or by recognized inter-governmental organizations.

(ii) All requests are subject to a thorough appraisal/review. Among the elements systematically reviewed are: the request's conformity with TCP's established criteria; the urgent or unexpected character of the assistance required; the commitment of the counterpart's obligation; a possible linkage to other ongoing or planned technical assistance activities; follow-up prospects; adequacy of the requested inputs to achieve the objectives envisaged and to carry out activities.

(iii) TCP project agreements are approved on behalf of FAO by the Assistant Director-General, Development Department.

(iv) The project inputs are purchased and delivered by the Headquarters implementing units in conformity with the provisions indicated in the project agreement.

It is highlighted that although the Governing Bodies have agreed to adjust, as from 1 January 1986, the ceiling for a single project from US$250,000 to US$400,000, which barely compensates for inflation over the past nine years, only one project out of the 900 approved since then has exceeded the figure of US$250,000. This strict control of project budget is maintained in order to preserve the Progamme's catalytic role, by approving the largest possible number of small-scale projects. The average cost of TCP projects approved during the 1986-87 biennium has remained below US$85,000.

A more elaborate statement on project purpose and workplan would have necessitated an average of 8 lines per project. This, multiplied by some 750 projects approved during the biennium, would have represented a further annex of 180-200 pages. Should there be further interest in knowing the ways those objectives and workplans are presented, samples for a few projects could be provided upon request.

The second line for each project indicates delivery, as recorded by Finance Division as at 31 December 1987, for the total and for each input. It is noteworthy that delivery figures at operating unit level are always significantly higher in view of the inevitable time lag before they are included in the accounting records.

The third line for each project gives the balance available, in total and by inputs. If the project is completed, the balance either has been or is being surrendered to the General TCP Funds, for reallocation to new projects in conformity with the Programme's financial rules. Where the project is still ongoing, the balance will be used to complete project execution.

With regard to the review of TCP projects, three permanent mechanisms exist which enable the TCP Unit (DDFT) to monitor the activities of each project: (i) participation in Task Force meetings, which are organized regularly by the responsible operating unit; (ii) systematic check on the timely delivery of inputs and suggestion of remedial action as necessary; (iii) review of project revisions proposed by the operating unit, which have concerned 721 projects operational in 1986/87 (out of which 312 with financial implications).

As far as the impact of TCP projects is concerned, a continuous evaluation is made on the basis of: (i) comments received from both the recipient government and the FAO Representative, after submission of the final report; (ii) the FAO Representative's annual report, which indicates ongoing or expected follow-up to all FAO executed projects, and (iii) surveys to consolidate information on follow-up action.

In this connection, a survey which encompassed 730 TCP projects approved between the beginning of 1983 and October 1985 showed that 298 projects (41%) were directly related to other assistance programmes, of which:

116 to UNDP projects, for which TCP provided formulation/preparatory assistance, with a multiplier effect of 7;

139 to Trust Fund projects, with a similar multiplier effect of 22;

43 to World Bank projects, which were connected to a total investment of about US1,000 million.

The remaining 432 projects (59%) were in direct support to the Government's own programmes. It is also worth noting that in the case of several emergency projects, TCP's rapid intervention not only helped member countries provide urgently needed inputs to the peasants but also served as a catalyst to *mobilize further external resources from other donors for rehabilitation programmes (Mediterranean Fly in Central America; Pan African Rinderpest Campaign, Locust control in Sahel, etc.).*

A similar survey has been undertaken for projects approved in 1986-87 and its results will be available within a few weeks. Should there be interest in them, they could be provided.

Finally, it is recalled that in 1985 the TCP was evaluated for the second time by a panel of independent consultants. This evaluation, which was submitted to and endorsed by the Programme and Finance Committees and by the Council at its Eighty-eighth Session, recognized that the actions undertaken by TCP were both timely and relevant to Member Countries' urgent needs and that the Programme had made an important contribution to food and agricultural development since its inception.

Question 6: Delegates to FAO Conference

There were two cases in which FAO staff members serving under technical assistance projects in their own countries were included in the Government delegations sent to the recent FAO Conference. This was done without the prior approval of FAO. The cost of their travel to Rome was in both cases borne by the Government concerned.

It is common practice in the United Nations system for project staff to act as advisers to Governments on technical matters. It has frequently happened over the years that the abilities of an FAO adviser have led to the Minister entrusting him with many delicate and important tasks. However, these should not go as far as including the adviser in the Government's delegation to an FAO meeting even if he is a national of the country concerned. The Director-General is taking action to ensure that there is no recurrence. To that end, he has, *requested that a review be carried out of the present staff rules and manual section so that new legal provisions can be adopted that will deal clearly with this situation in the future.*

Question 7: Recruits at P4 level and above since November 1987

In addition to the detailed information on staffing and short-term experts/consultants which has been regularly provided in the past to the U.S. Mission, most recently on 22 March 1988, attached is Annex 9 which lists the persons hired by FAO at P4 level and above since 1 November 1987 showing, inter alia, name, nationality and position. Moreover, Annex 10 shows FAO employees now serving at the D level or above who received a promotion since 1 November 1987 showing inter alia, name nationality, present position and position held prior to promotion.

Question 8: Family members of Permanent Representatives or Alternative Permanent Representatives or former Permanent Representatives or high-ranking officials of FAO.

FAO Policy and Procedures Manual Section 305.45 deals with the Staff Rules concerning family relationships as follows:

STAFF RULES

302.409 Family Relationships

.4091 Except where another person equally well qualified cannot be recruited, appointment shall not be granted to the husband, wife, father, mother, son, daughter, brother or sister of a staff member.

.4092 If two staff members marry, the benefits and entitlements which accrue to them shall be modified as provided in the relevant Staff Rules; their appointment status shall not, however, be affected.

.4093 Staff members who bear any of the relationships specified in Staff Rule 302.4091 shall not be assigned to posts one of which is subordinate to the other in the line of authority.

The above rules are strictly adhered to and there are no cases of husbands, wives, fathers, mothers, sons, daughters, brothers or sisters of staff members being recruited as staff members of the Organization. There are, however, cases of marriages between existing staff members as staff rule 302.4092 foresees, however, in such cases they are not assigned to posts in which one is subordinate to the other in line of authority.

FAO Rules do not deal with the recruiting of spouses, sons or daughters, brothers or sisters, fathers or mothers, brothers in-law or sisters in-law or nieces or nephews of Permanent Representatives to FAO or Alternative Permanent Representatives to FAO or former Permanent Representatives to FAO. As there is no requirement for candidates to declare their relationships with Representatives to FAO, no information exists on this aspect and it is not possible to compile a reliable list in this regard without circularising all staff members and Permanent Representatives and using independent verification procedures subsequently.

Similarly, FAO Rules do not deal with the contracting for services with non-staff members related to Permanent Representatives to FAO or Alternative Permanent Representatives or former Permanent Representatives to FAO. Again, as would be contractors are not bound to declare their relationships with Representatives to FAO, there is no convenient summary of information on such persons, if any.

FAO Rules are explicit, however, concerning Special Service Agreements and Consultants and their relationship with staff members as follows:

Manual Section 319.2

.22 A special services agreement is not entered into with an individual who bears one of the following relationships to a staff member of the Organization: husband, wife, father, mother, son, daughter, brother or sister. However, the Director, Personnel Division (AFP), may make exceptions to this rule where it is in the interest of the Organization to do so.

Manual Section 317.2

.22 Consultant appointments may not be granted to individuals who bear any of the following relationships to a staff member of the Organization: husband, wife, father, mother, son, daughter, brother, or sister. However, the Director, Personnel Division (AFP), may make exceptions to this rule in specific cases, where it is in the interest of the Organization to do so.

As regards the question as to whether or not it would be a conflict of interest situation for a Permanent or Alternate Permanent Representative to have a close family member on the payroll or retained by FAO as a paid consultant, it is noted that the Governing Bodies have not hitherto considered this to be a difficulty to the extent of laying down a directive in this connection.

Question 9: Former Permanent Representatives to FAO or former Alternate permanent Representatives to FAO who are currently on the FAO payroll.

As FAO's Rules and Regulations do not prohibit former Permanent Representatives or former Alternate Permanent Representatives from becoming employed by FAO, no specific listings have ever been prepared to identify such persons from all other staff members. However, there undoubtedly are some cases as in all organizations of the UN system.

SENATOR INOUYE: What is the U.S. Mission doing to ensure that, if these allegations prove true, FAO is reformed?

MR. GOODMAN: Assistant Secretary Williamson wrote to Director General Saouma on March 24 to present U.S. expectations for FAO reform. The Director General's reply was favorable, but he indicated he felt other member countries, through the FAO Program and Finance Committees, must show support for our reform proposals as well. The Special Joint Session of the FAO Program and Finance Committees on the Review of FAO, meeting in Rome, May 16-24, has approved a measure that is an important first step toward achievement of U.S. objectives for budgetary reform in FAO. Indications are good that the joint committee will also approve a review of FAO that will include, as one component, a management review conducted by a consulting firm. The U.S. had proposed this management review because it should result in clarification of the issues that Ambassador Eckert raised in his letter, along with recommendations for resolution of any management problems that the consulting firm may find to exist in FAO.

Through our seat on the FAO Finance Committee, by direct communication with senior FAO management, in coordination with other members of the Camberley Group--a group of reform-minded FAO donor countries--and by our participation in FAO Council and Conference sessions, the U.S. will continue to work for reform of FAO that will render management and financial operations more transparent.

QUESTIONS SUBMITTED BY SENATOR KASTEN

REDUCTION OF U.S. ASSESSMENT LEVEL

SENATOR KASTEN: What is the Administration's current position on suggestions that our assessed contributions be reduced from 25% to 20 or 15%?

MR. GOODMAN: We are taking a long and hard look at this very important issue before establishing a definitive position. The issue of reducing the U.S. assessment level was raised last autumn in the UN General Assemly in the context of the UN's financial crisis. Some member states (e.g. the Nordics and Canada) and the UN Secretary General expressed the view that the UN should not be overly dependent on the contributions of any single member. We have indicated that we understand these views and that we are giving the issue of reducing the U.S. assessment serious consideration. The issue will again be raised this autumm when the UN General Assembly approves a new scale of assessments for 1989-91, based on the June preparatory work of the expert UN Committee on Contributions.

The key factors to consider in formulating our position on reducing the U.S. assessment level include the following:

-- The possible perception by others that a reduced assessment level would signal acceptance of a diminished U.S. role in world affairs;

-- The gains in influence of paying fully at a lower assessment level compared to the loss of influence resulting from shortfalls at a higher assessment level;

-- The possibility that the negotiations for a reduced assessment could be contentious and provide another opportunity for our adversaries to attack us;

-- The extent to which Congress could be expected to fully fund U.S. obligations at a reduced assessment level.

As we move toward formulating our position on reduced U.S. assessments in the UN and other international organizations, we will be consulting with the Congress to ensure accord on the key aspects of this very important issue.

GENERAL QUESTIONS ON THE UNITED NATIONS

SENATOR KASTEN: We have received reports from some in New York that American Citizens employed by the U.N. are being systematically discriminated against due to Congressional reductions in U.N. funding. Do you have any indications that United States nationals are being subjected to such treatment, and, if so, what is your policy on this matter?

MR. GOODMAN: Both the U.S. Mission to the United Nations in New York and the Office of UN System Recruitment in the Bureau of International Organization Affairs in the Department closely monitor personnel changes in the UN, especially as they pertain to U.S. citizens. We take the issue of discrimination seriously and would view any politically motivated, punitive UN actions against Americans, for whatever reason, as unacceptable.

Presently, we have no clear indications that U.S. nationals are being discriminated against. You may be assured that we would take appropriate action, if we found, verifiable and legitimate cases of Americans being unfairly dismissed, forced to resign, or not having their contracts renewed as a result of U.S. Government financial policies.

UNITED NATIONS ENVIRONMENT PROGRAM (UNEP)

SENATOR KASTEN: There is wide consensus that additional actions are needed as soon as possible to prevent further depletion of the stratosphere ozone layer due to emissions of chlorofluro-carbons (CFC). Does UNEP have a specific schedule for carrying out a scientific reassessment of the actions needed to prevent further ozone depleting CFCs, reconvene the parties to the Protocol signed in Montreal in September 1987, complete the process of negotiating amendments needed to strengthen that convention?

MR. GOODMAN: UN resolution 42/182 calls for the Executive Director of UNEP to submit to the forty-fourth session of the General Assembly, a report on the implementation of the present resolution and any further information regarding the Montreal Protocol that UNEP may be in a position to provide. Beyond this requirement, however, UNEP does not have a specific schedule for scientific reassessment of actions needed to prevent further ozone depletion. The parties to the Montreal Protocol are scheduled to hold their first meeting regarding the Protocol in 1989. A primary consideration of the Protocol, if and when it enters into force in 1989, will be to address the question of what more needs to be done to prevent further depletion of the ozone.

SENATOR KASTEN: Does the U.S. Government agree that UNEP should have such a schedule, and that it would be appropriate to aim to complete the reassessment well before the end of 1988, to reconvene the Montreal Parties in January 1989, and to complete the negotiations by July 1, 1989?

MR. GOODMAN: The USG strongly supports further consideration of the immediate needs to prevent further depletion of the ozone. While the USG will continue to identify actions to be taken, it is generally considered that further international action should be coordinated under the Protocol.

SENATOR KASTEN: I have long been concerned about the inadequate environmental performance of the multilateral development banks. What is the U.S. Government's assessment of the effectiveness of the CIDIE, which has the objective of improving that performance and for which UNEP serves as the Secretariat?

MR. GOODMAN: The U.S. Government strongly supports the program of the Committee on International Development Institutions on the Environment (CIDIE) to give greater consideration to environment issues in the consideration of loans by development institutions. The CIDIE program, however, is voluntary and several countries who are members of this institution do not yet give significant weight to environmental concerns when considering such loans.

SENATOR KASTEN: Could UNEP have more impact by integrating the CIDIE effort more closely with other aspects of its own program, enabling UNEP to play a catalytic role by bringing to the CIDIE members specific suggestions for initiatives to promote environmentally sound development (e.g., more involvement of NGOs in development projects, more emphasis on energy conservation.)?

MR. GOODMAN: The general lack of success of the CIDIE program is due largely to the fact that the program is voluntary. Many members of development institutions tend to consider development loans as one issue, and environmental concerns as a separate issue.

SENATOR KASTEN: Efforts by NGOs are often the key to effective protection of the environment. Has the U.S. Government received from UNEP a report on its actions to implement Governing Council decision GC 14/8 concerning improved cooperation with NGOs? If so, the Subcommittee would appreciate a copy and your views as to the adequacy of the response. If not, could you request UNEP to send such a report?

MR. GOODMAN: The Report requested has not been published by the UNEP Secretariat. A copy of the Report will be provided to the Subcommittee as soon as it is available.

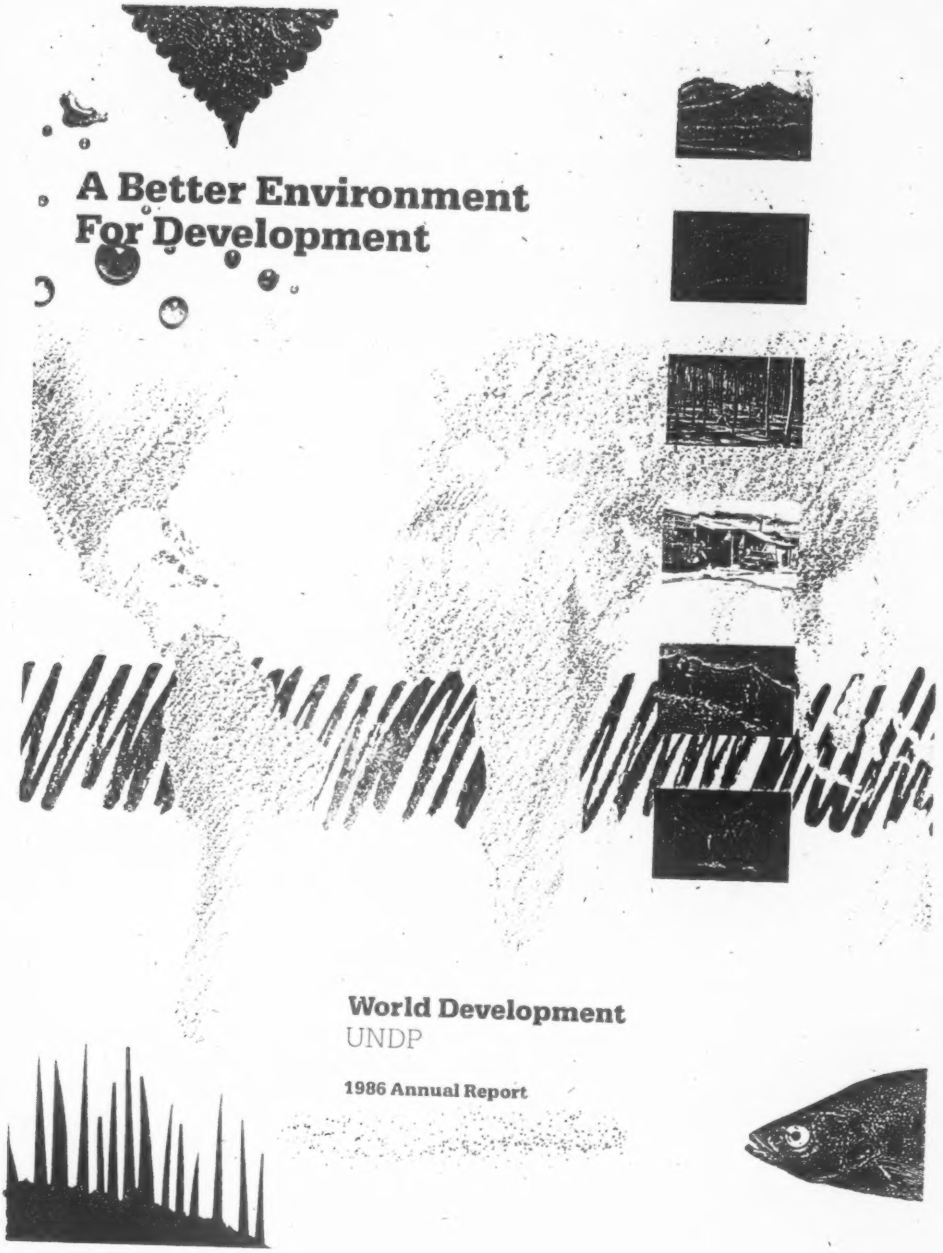
SENATOR KASTEN: Another global environment threat is that of global warming of the atmosphere. Does the U.S. Government agree with many scientists and environmental organizations that it is now time for UNEP to lay the groundwork for an international convention limiting emissions of carbon dioxide, as part of an effort to minimize global warming? Has the U.S. Government conveyed that view to UNEP?

MR. GOODMAN: No, we believe we need additional information regarding the total effect of the warming trend. However, the Administration is considering whether an international agreement would be appropriate and, if so, what form and timing would best serve our objectives.

UNITED NATIONS DEVELOPMENT PROGRAM (UNDP)

SENATOR KASTEN: UNDP has in the past been criticized for its lack of concern about the environment. How many environmentally trained staff members does UNDP currently have?

MR. GOODMAN: UNDP has very few members of its permanent staff trained specifically in environmental sciences. UNDP Staff members usually have more general backgrounds. These generalists fit in more with the type of activities UNDP usually undertakes, i.e., modest-sized projects for funding of experts or training. UNDP, however, with the help of environmental specialists from outside has developed and funded a number of environmental projects. Attached is a copy of the UNDP's 1986 Annual Report entitled, "A Better Environment for Development":



A Better Environment For Development

World Development
UNDP

1986 Annual Report

Contents

Administrator's Statement 1
A Better Environment For Development 2

Essays

Pushing Back the Desert Sands 4
Protected Soil Means Productive Land 5
Preserving the Global Green Belt 6
Towards a Better Man-Made World 7
Saving Marine Life 8
Pure Water Saves Lives 9
Year In Review 10

Results

Africa 12
Asia and the Pacific 14
Latin America and the Caribbean 16
The Arab States 18
Global and Interregional 20
Associated Funds 22
Executing Agencies 24

Principal Donors 1986*

(US$ millions)

Country	UNDP Core	Funds Core	TOTAL Core	Co-Financing	GRAND TOTAL
United States	138.1	1.2	139.3	3.6	142.9
Sweden	63.1	16.4	79.5	1.9	81.4
Netherlands	62.4	7.6	70.0	6.4	76.4
Norway	56.9	7.2	64.1	7.8	71.9
Japan	64.8	4.3	69.1	2.3	71.4
Denmark	52.7	5.0	57.7	10.1	67.8
Italy	42.5	5.1	47.6	10.8	58.4
Fed. Rep. Germany	55.4	1.2	56.6	1.2	57.8
Canada	46.4	1.6	48.0	4.9	52.9
France	32.7	0.6	33.3	2.3	35.6
Switzerland	26.4	7.0	33.4	0.8	34.2
United Kingdom	31.1	0.1	31.2	—	31.2
Finland	16.2	3.1	19.3	4.1	23.4
Belgium	16.1	1.1	17.2	1.1	18.3
Australia	8.5	0.1	8.6	0.7	9.3
Austria	7.7	0.2	7.9	—	7.9
Spain	3.8	—	3.8	0.4	4.2
New Zealand	1.6	0.4	2.0	—	2.0
Ireland	1.5	—	1.5	—	1.5
Major Donor Total	**727.9**	**62.2**	**790.1**	**58.4**	**848.5**
Others	**47.3**	**0.9**	**48.2**	**130.2**	**178.4**
GRAND TOTAL	**775.2**	**63.1**	**838.3**	**188.6**	**1,026.9**

*Contributions Pledged to UNDP Core, UNDP-administered Funds, and Co-Financing

Administrator's Statement

In 1986, slackening growth rates in the industrialized world left the economies of developing countries in an unsettled state. Demand for their exports fell away and commodity prices sank to record lows. In many developing countries, capital inflows slowed to a trickle or dried up. Debt payments claimed larger percentages of national earnings. As a result, revenues available for development declined and domestic investment levels dropped.

The global economic front did show some hopeful signs, however. Inflation rates stayed below predicted levels in many developing countries. Lower oil prices kept fuel import bills down, but also confronted oil-exporting developing nations with special difficulties. In Africa, rains brought relief from drought and hunger.

With developing nations counting more than ever on technical assistance, UNDP gained new growth and momentum. Voluntary contributions from governments received by UNDP for its central resources, trust funds under its administration, and through cost-sharing, reached a record level of more than $1 billion in 1986. At year-end, the forecast for pledges in 1987, based on prevailing exchange rates, indicated another year of record contributions.

The upturn in UNDP resources was matched by improvements on the delivery side. Project expenditures rose for the second straight year, climbing 20.5 per cent above 1985 levels to reach a total of $689.2 million.

To ensure the best use of its funds and preserve the quality of development services delivered, UNDP tightened project budgeting practices and enhanced the monitoring of projects in its 112 country offices.

UNDP established an in-house Action Committee of senior staff to co-ordinate programme policies and to review and approve all projects over $400,000.

Appraisal groups in Regional Bureaux were created to examine projects more closely. Regular meetings of the UNDP Programme Review Committee were held to bring new standards of quality into the design and crafting of country programmes.

In Africa, staff missions were fielded to more than 30 countries in order to help clear the way for the delivery of quality programmes and support the transition from emergency operations to recovery projects.

The year was one of increased activity as Governments, UNDP and United Nations agencies geared up for the Fourth Programming Cycle. With its partners, UNDP began drawing up new programmes of medium-term technical assistance for 152 countries and territories that will go into effect during the period 1987-1991.

In Africa and Latin America, for example, UNDP will help countries to manage economies more efficiently and promote agricultural and industrial production. In Asia and the Pacific, where impressive gains have been made in food self-sufficiency, UNDP efforts will centre on developing human resources and heightening the use of technology.

The UNDP partnership with non-governmental organizations (NGOs) was enhanced in 1986 with the creation of a new Division for Non-Governmental Organizations.

Co-operation with NGOs on policy issues is already strengthening project-level ties. UNDP will continue to support the use of national grassroots funds to finance small-scale projects proposed by community groups.

UNDP gave support to development activities of local NGOs by establishing the Partners in Development Fund. This new Fund will award grants of up to $50,000 for highly innovative community initiatives involving food production, water supply, primary health care, education, and income and employment generation. The aim will be to bring more of the creative energies of the NGO community into development programmes.

UNDP pushed forward in its drive to bring the intellectual capabilities and talents of women into development. The task ahead is enormous, as an alarming statistical snapshot of women's economic situation reveals. Women make up more than 50 per cent of the world's population, perform two-thirds of the work, and receive one-tenth of all income. Women grow about half the world's food but own less than one per cent of the world's land. They account for one-third of the official labour force but they earn less than three-quarters of the wage of men doing similar work.

These inequities call for a concerted and practical response from governments and international organizations. In 1986, UNDP established a Division for Women in Development. The new Division will be responsible for seeing that women's needs and capabilities are systematically considered in project designs and programming.

In each UNDP country office, one national and one international officer will be given special responsibility for strengthening women-in-development activities. Every new project presented for approval will include an analysis of that project's contribution to increasing women's share and role in development.

In many developing countries, the private sector provides a considerable force for economic progress. Many governments have expressed interest in improving their climate for private sector activity and investment. UNDP can assist by providing expertise to advise on issues such as tax laws, pricing policies and industry licensing procedures. In Africa, UNDP is responding to appeals for private sector development, with a regional programme that provides advisory services for training in marketing, management and related activities.

The Africa Project Development Facility established in 1986 by UNDP, the International Finance Corporation, several donor governments and the African Development Bank is another example of UNDP's private sector thrust. This venture provides technical and advisory services to African entrepreneurs who are ready to move from trading activities to manufacturing, or who need help enlarging cottage industries and small businesses. By the end of 1986, the Facility had opened offices in Abidjan and Nairobi and was giving close consideration to more than 30 proposals from African entrepreneurs and governments.

"UNDP knows that barren slopes and leached soils are not the exclusive concern of environmentalists. They are challenges to the world's resource managers and all who support true development. The rural poor who slash down forests or wring exhausted soils in order to live another day are not the sources of devastation but its desperate agents and bewildered victims."

William H. Draper III
to the General Assembly
of the United Nations,
November 17, 1986

The model for this African initiative, the UNDP-supported Caribbean Project Development Facility, continues to make progress. By the end of 1986, after four years of operations, it had prepared feasibility studies for 58 projects in 17 different Caribbean States with a total estimated investment of $180 million. Some $35 million in follow-on financing had been secured and an estimated 3,000 jobs created by new investments.

UNDP strengthened its donor Round Table consultations—an aid review process, often carried out with the World Bank, which brings a recipient government together with prospective donors. The Round Tables enable representatives of a developing country to discuss economic policies, strategies and programmes with their aid partners.

With the Government of Cape Verde, for example, UNDP co-sponsored a donor Round Table conference in Geneva in October 1986, attended by nine donor countries and nine multilateral organizations. The participants examined the country's economic situation, its balance of payments, the public investment programme and other aspects of the Government's development strategy. They also assessed efforts to mobilize domestic and external resources. The review meeting a month later included a wider circle of donors. These consultations led to a global endorsement of the Government's economic policies and provided indications of aid adapted to the country's needs.

Another aid co-ordination initiative which UNDP increasingly used in 1986 involved the National Technical Co-operation and Assessment Programmes (NaTCAPs). These assessments help governments identify priorities for technical co-operation and assist countries in preparing programmes to meet those needs.

Environmental issues moved up the development agenda in 1986. Examples of UNDP's environmental involvement are featured in the next section of this annual report for 1986. Projects have spanned the spectrum of operations, ranging from agriculture and aquaculture to natural resources, population and human settlements.

UNDP will continue to press the case for balanced resource management in its dialogues with governments and international agencies. Working in these ways, UNDP enters a new era of technical assistance ready to help countries make the most of valuable resources and promote sustainable development.

A Better Environment For Development

Viviane Holbrooke

Economic development is closely bound to environmental concerns. Man cannot hope to improve his world without economic growth. But quality of life cannot advance unless the living environment is nurtured and valuable natural resources are protected. UNDP plays a critical role in the growing global action to reclaim and protect the world's natural resources on which all economic progress and human security rest.

The earth's barren slopes, leached soils, lost croplands and depleted fisheries require attention. The world's food-yielding croplands are becoming more scarce. By the end of this century, developing countries will have an average of only 0.19 hectare of cropland per person. Without positive action to replenish soils, crop output will also decline. Another major food source—fish—is in danger of severe shortfalls due to a decline in their numbers and a rise in demand.

The World Resources Institute warns that rich tropical forests are vanishing at the rate of some 11 million hectares a year, leaving precious topsoils exposed to the ravages of harsh weather. This is partly because around 1.5 billion people who depend entirely on wood to meet their energy needs are cutting down trees faster than they can grow back.

In addition, more than three billion hectares of rangeland, rainfed cropland and irrigated lands—virtually a quarter of the earth's land area—are subject to some form of desertification. Another billion hectares are threatened by this process of land deterioration and desert encroachment. In parts of Africa south of the Sahel, deserts are now overrunning farms, towns and villages at the rate of 16 kilometres a year. And, notwithstanding gains achieved in the Water Decade, an estimated 25,000 people still die each day as a result of water shortages and contamination.

World population is now growing by some 80 million people a year and is expected to reach five billion by mid-1987. More significantly, rates of population growth vary widely in different parts of the world. Between 1950 and 1985, the population of the developed world went from 800 million to 1.2 billion while that of developing countries grew from 1.7 billion to 3.7 billion. Although the relationship between population size, natural resources and economic progress is not a simple one, these figures underline the urgent need for active and comprehensive population policies.

UNDP's involvement with environmental issues has been serious, substantial and sustained. Dating from the First Programming Cycle in 1972, UNDP has financed close to 1,800 environment-related projects at a total cost of just over $1 billion.

As the following pages illustrate, these projects span the spectrum of UNDP operations, ranging from agriculture and aquaculture to natural resources, population and human settlements. They have helped to improve environmental health conditions, conserve soils, reclaim rangelands, and protect forests, watersheds and wildlife. Projects with an environmental impact command an increasing share of UNDP's overall approvals. In 1976, environment-oriented projects worth $42.5 million accounted for 10.7 per cent of the total UNDP programme of $398 million. In 1986, environment projects costing $123.3 million represented 19.9 per cent of the field programme of nearly $620 million.

Pushing Back the Desert Sands

Humans create desertification, humans suffer its consequences and only humans can reverse its devastation. Destructive land-use practices are causing deserts to crawl across parts of Africa, Asia, Australia and the Americas.

Overgrazing, plowing and over-cutting woody vegetation are principal culprits in turning grasslands and fields into drifting heaps of sand. When the vegetation is gone, the soil is laid open to erosion by wind and water. Vegetation is slow to return to land stripped of the top layers of nutrients.

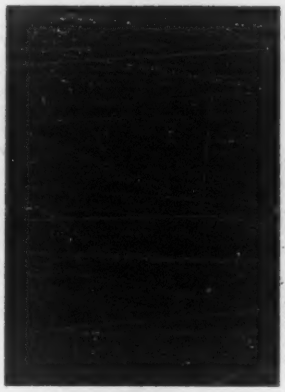
Desertification leaves a mark on social and economic conditions. Unemployment, famine, poverty and human desperation are its unfortunate sequels. By introducing innovative irrigation practices, sand dune fixation, improved dryland farming and controlled grazing, UNDP is helping to restore shattered terrain.

UNSO

Barriers built across deserts change destructive wind patterns.

▪ The United Nations Sudano-Sahelian Office (UNSO), an associated fund, operates in 22 countries across the Sudano-Sahelian belt of Africa. UNSO handles roughly 200 desertification-control projects, channelling some $145 million into the operations. The shifting coastal and continental sand dunes of **Mauritania** called for prompt and long-term measures. UNSO was there to offer help with a nationwide sand dune fixation programme. The task was enormous. Sand marched over roads and cut communications. It drifted over strips of farmland along the southern border where Mauritania grows its crops. Moving dunes were soaked, sprayed, planted or covered with synthetic stabilizers. Roads were fenced. Barriers were built across dried expanses to change ruinous wind patterns. By the end of 1986, about 850 hectares of dunes were stabilized at 15 sites. Mauritania is now a testing ground for reversing the evils of desertification.

▪ In a similar effort, UNDP along with the Food and Agriculture Organization (FAO) developed a programme to protect vital date palm groves, **Morocco's** main crop, from sand dune encroachment. Work crews successfully safeguarded canals, access roads and rail lines at an important agricultural site. One method used for protecting the main thoroughfares involved sculpting the dunes on the windward side of roads until the sand took on an aerodynamic shape like an aircraft wing. That sped the flow of air over the road so that sand was carried away without covering the routes. In the 1979-1986 period UNDP contributed nearly $1.5 million to the Morocco project. Its accomplishments proved invaluable in preserving the palm groves and other valuable crops in the valleys of Draa and Ziz.



Vegetation is slow to return to land depleted of valuable nutrients.

▪ Botanical fixation is a long-term method used to deal with moving dunes. Salt-tolerant plants which can take root even in shifting sands stabilize soil on a massive scale. To protect and enrich the arid soils of **Niger**, UNSO is promoting the planting of nitrogen-fixing trees. An effective one in the Sudano-Sahelian region is **Acacia albida**, which is drought-resistant and fast-growing. The trees provide shade during the dry season and shed their leaves during the rainy months, making possible agricultural cultivation beneath the trees. The project is expected to regenerate 4,000 to 6,000 hectares of arable land.

Protected Soil Means Productive Land

Soil—the very earth upon which we walk and feed is a nation's basic resource. The earth is losing, through soil degradation of one form or another, nearly as much new land as it is now bringing into production every year. Since the dawn of farming, the world has lost about 2,000 million hectares of cropland to soil erosion.

Soil erosion occurs primarily when the land is exposed to wind and rain. Unprotected by vegetation, raindrops hit the naked soil like bullets. Loosened soil particles wash down the slope of the land and either end up in the valley below or are washed to sea by streams and rivers. UNDP is advancing sound land-use practices and farming techniques to ensure a fertile land legacy for future generations.

- For **Ethiopia**, a country of some 45 million people, preserving agricultural land is a matter of life or death. Uninterrupted cultivation, primitive farming practices, uncontrolled clearing of natural vegetation and heavy overgrazing have transformed much of the country's highlands into bare landscapes, all but destroyed by erosion.

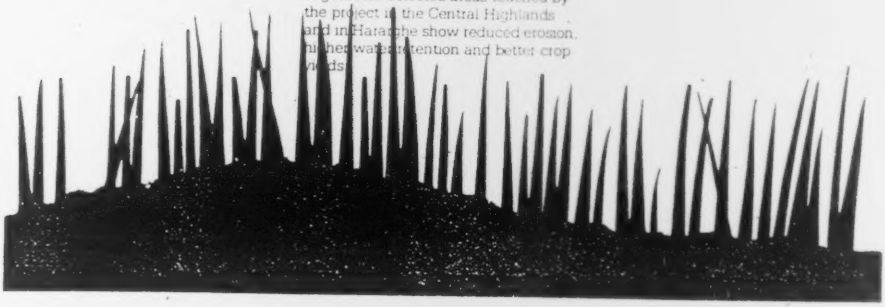
John Isaac/UN

Terracing the soil is one conservation method used to control erosion.

Some 2,000 tonnes of fertile top soil per square kilometre are lost each year in Ethiopia. This vital asset is washed away by run-off during the rains.

The Government has been attempting to reverse erosion through a national soil and water conservation programme. It turned to UNDP and FAO for technical assistance in 1977. By the end of 1986, UNDP had contributed more than $3 million to the effort. Another $4.5 million will be spent over the next five years. The project has supported the construction of embankments to prevent destructive rushes of water during heavy rains. Land has been terraced with stones and new trees to protect steeper slopes. Small dams have halted gully erosion. Some areas that were closed entirely to grazing are now covered with lush, new vegetation. Selected areas touched by the project in the Central Highlands and in Hararghe show reduced erosion, higher water retention and better crop yields.

- The steep slopes of **Trinidad and Tobago** are prone to rapid erosion. To help strengthen agricultural production and make better use of the mountainous terrain, Trinidad and Tobago requested help from UNDP. The project has achieved great success in the Maracas Watershed of Trinidad's Northern Range. It brought contour ridging of a variety of tree and vegetable crops to the higher slopes. This technique uses small banks of earth which are built along the contour to brake the downhill flow of water which causes erosion. The on-going project has introduced cultivation of spices such as nutmeg, black pepper, clove and cinnamon. Valuable timber trees were also planted on idle, or otherwise unproductive land. Between 1982-1986, UNDP contributed about $750,000 to the project.



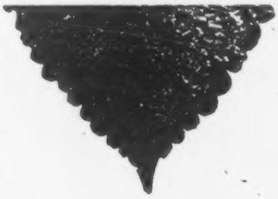
Preserving the Global Green Belt

Tropical forests are one of the earth's most valuable natural resources, yet they are among the most threatened. They are essential sources of food, fuel, shelter and medicine. They sustain people and their environments by protecting soil and water resources, and provide habitat for half of the world's plants and animals.

Every year tropical forest lands covering an area larger than Austria are lost. The causes of the crisis are rooted in agricultural practices and energy demands. As trees disappear, a chain of events is set in motion that leads to declining food production, land degradation, and in extreme cases, desertification. UNDP has taken global initiative in tropical forest conservation and has demonstrated that deforestation is a problem with attainable solutions.

- **Thailand** has lost half of its forests as its population more than doubled in the past 25 years. Impoverished farmers used slash and burn raids to clear forested areas for agricultural use and fuelwood. These raids decimated entire forests. The Government stepped in with a new approach: social forestry.

With UNDP/FAO assistance, the Royal Forest Department identified reaches of the Khorat plateau that could be reforested. To encourage sustainable agriculture, the 1981-1986 project offered 1,000 farmers cultivation rights for more than 2,000 hectares of land. UNDP contributed more than $1 million to the project. Under the plan, farmers may work the land for five years, provided they follow sound ecological practices. If they meet government approval after that period, they can extend their land rights for life, and pass them on to their children. The social forestry scheme gives the farmers incentive to take care of the land by offering lasting benefits. To date, more than 3.5 million seedlings have been planted. The effort also provided training in bee keeping and cattle raising. Today, the Khorat plateau is a thriving scene of farming, forestry and permanently settled communities which both sustain and renew the environmental balance.



Vast reaches of the Khorat plateau in Thailand are now reforested.

William Rafford/UNDP

- In mountain-turreted **Nepal,** two-thirds of the population relies on forest resource production for survival. Rising population growth coupled with livestock increases created heavy demands for fuelwood and fodder. These pressures, in turn, resulted in such profound deforestation that, if left unchecked, Nepal's hill forests would have disappeared within 15 years.

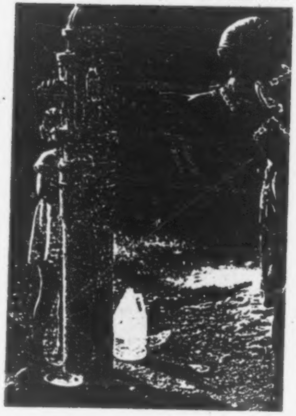
The Government of Nepal launched a large-scale community forestry project, uniting efforts from the World Bank, FAO and UNDP. The work substantially slowed the nation's pace towards environmental disaster. By the end of 1986, a quarter of a million seedlings were distributed on land set aside for fuelwood and fodder cultivation. Dams, irrigation canals, trails and terraces were built or renovated. Under a programme to introduce energy-saving technologies, stoves requiring less firewood were given to local communities. Every step of the way, local participation played an enormous role in arresting a national problem. UNDP contributed more than $2.3 million to the project.

Towards a Better Man-Made World

Today, one quarter of the world's people call misery home. Nearly 100 million are actually without shelter, eating and sleeping along public streets in all of the major metropolitan centres of the developing world. Squatter settlements typically lack water, sewage facilities, removal of solid waste, electricity and paved streets.

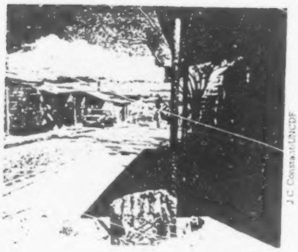
Population growth is straining the global urban environment. UNDP is committed to improving the present conditions and future prospects for human life in cities. Without well-run, healthy urban centres, economic and social development is impossible. Through its broad-based urban renewal projects, UNDP is improving housing, water and sanitation facilities in some of the worst slums in the world.

J C Constant/UNCDF



Rehabilitated parts of Port-au-Prince now have amenities such as fire hydrants, public water pipes and sidewalks.

- Slum rehabilitation in **Haiti** is a powerful example of UNDP in action. Sixty per cent of the urban population in Haiti lives in Port-au-Prince. Most houses are made out of scrap materials such as tin, packing crates and discarded tires. Haiti requested help from UNDP and the United Nations Capital Development Fund (UNCDF) for the rehabilitation of a densely-populated slum area of Port-au-Prince, known as St. Martin. Thus far, in the rehabilitated portion of the St. Martin slum, the project has provided sidewalks, fire hydrants, public water pipes, street lights and a multi-purpose community centre. More than 750 new dwellings have been built and a housing credit revolving fund was created to build low-cost homes. Funds from the Inter-American Development Bank have rehabilitated the Rockefeller Canal which runs through the centre of St. Martin, providing the only sanitation drainage facility in the area. The project is also improving health and sanitation conditions through better drainage disposal, the extension of water supply systems and garbage and erosion control. The St. Martin project in Port-au-Prince is a showcase to both local populations and potential donors.



J C Constant/UNCDF

Urban renewal has transformed sections of Haitian slums into thriving communities.

- In **Burundi**, a UNDP-supported project transformed the slum settlement of Musaga into a thriving quarter. Before the project began, most of the residents of this run-down area lacked basic amenities such as running water and sanitation facilities. Since 1979, more than $8.5 million has gone towards the ongoing rehabilitation of Musaga. Thanks to the UNDP/UNCDF project, the town now has a primary school and health and community centres. The project supported construction of a drainage network, a piped water supply system, public lighting and new roads. Along with these improvements, a site for more than 100 houses was prepared, and a co-operative for their construction on a self-help basis was organized. A revolving loan fund for building materials was created.

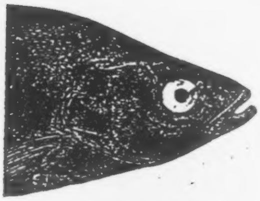
Milton Grant/UN

A worker prepares concrete slabs for construction in Port-au-Prince.

Saving Marine Life

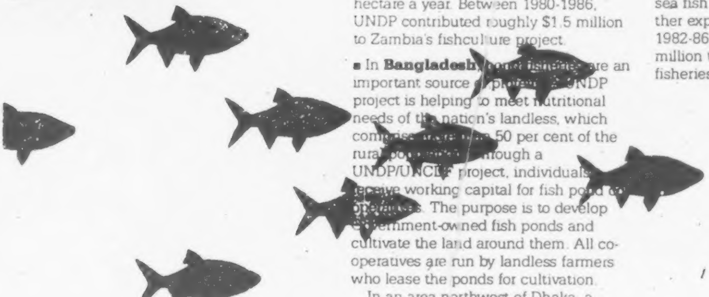
Uncontrolled exploitation has depleted the oceans of their most prized varieties of fish, leaving disturbing prospects for the world's marine harvests. For nearly 5,000 years fish have been systematically hunted and cultivated. Today, they are one of the most vital natural resources for the world as a whole and particularly developing countries. Of some 20,600 known species, about 9,000 serve nutritional, economic or commercial purposes. World demand will outstrip supply by at least 20 million tonnes a year by the end of this century, unless current trends are reversed.

UNDP is playing a global role in helping governments plan and finance projects to survey, conserve, manage, develop and use fish resources in their inland, inshore and ocean waters.



- Landlocked **Zambia** is expanding a network of small ponds for fish farming with UNDP assistance. Some areas are using an innovative method to breed fish in tandem with pigs and ducks. Manure is used to fertilize the plant growth in fish ponds. The fish then eat the vegetation. This cycle has proven highly successful. In addition, sales of the pigs and ducks generate income.

The UNDP/FAO fishculture development project has rehabilitated and expanded fish ponds in three locations — Chipata, Mwekera and Chilanga. It developed a fingerling supply centre for private fish farmers and offered on-the-job training to 400 fish farmers. The integrated fish farming resulted in a net fish production of up to 10 tonnes per hectare a year. Between 1980-1986, UNDP contributed roughly $1.5 million to Zambia's fishculture project.



- In **Bangladesh**, pond fisheries are an important source of protein. A UNDP project is helping to meet nutritional needs of the nation's landless, which comprise more than 50 per cent of the rural population. Through a UNDP/UNCDF project, individuals receive working capital for fish pond co-operatives. The purpose is to develop government-owned fish ponds and cultivate the land around them. All co-operatives are run by landless farmers who lease the ponds for cultivation.

In an area northwest of Dhaka, a 47-member co-operative obtained a loan from UNDP funds channeled through a government bank. The loan helped repair ponds, buy fish fingerlings, and tree seedlings. In 1985, severe flooding during the monsoon season washed away all the fish in the pond. The villagers restocked the pond and in 1986 harvested their first fish, selling them for $1,200 in nearby towns. Each co-op member's earnings were equal to more than half of the $43 a year average per capita income of landless people.

World demand for fish may overtake supply by 20 million tonnes a year by the end of the century.

- A handful of industrial nations monopolized deep sea fishing until the early 1970s. Since then, developing countries have been working with UNDP to buy fishing fleets and equip them with trained staff. **Tunisia** turned to UNDP for development of its high seas fisheries. Through the purchase of three modern sea trawlers and the training of personnel to operate and maintain them, Tunisia has increased fish production by 4.5 per cent annually. A UNDP/FAO-supported survey in Tunisia identified locations and types of deep sea fish. This data is essential for further expansion of the industry. Between 1982-86, UNDP contributed nearly $1.2 million to develop Tunisia's high seas fisheries.

Kevin Bubriski/UNDP

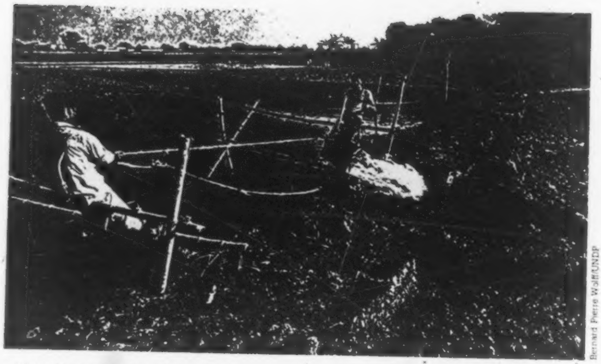
Pure Water Saves Lives

There is only a finite amount of freshwater circulating throughout the planet. More than 97 per cent of the earth's surface water belongs to the oceans, leaving only a small percentage for drinking water and irrigation. Without ways to bring this finite resource to those who have no access to it, more than nine million people a year will continue to die from a combination of factors related mostly to contaminated water.

Competition for water is fierce. Crops, industry, livestock and people depend on it. Agriculture, however, claims the largest single share of all water used. Poor irrigation wastes precious water and can have adverse environmental effects.

By introducing better pumps, canals, and improved water-use practices, UNDP is part of a global effort to preserve and manage water for agricultural purposes. UNDP is also rallying behind the aims of the International Drinking Water Supply and Sanitation Decade. It is financing projects to expand local water supplies and improve low-cost technology for greater access to clean drinking water.

UNDP is assisting in the field testing of 70 varieties of handpumps to improve global access to clean drinking water.



Bernard Pierre Wolff/UNDP

New irrigation systems in Bangladesh will bring water to remote farms.

- UNDP has contributed over $200 million to more than 230 projects related to the Water Decade. Some of the most significant technological breakthroughs during the Water Decade centre on improving the operation, maintenance and affordability of handpumps. To help supply the estimated five to seven million handpumps needed by developing countries, a UNDP/World Bank global project is assisting in extensive research, design and field testing of 70 varieties of pumps. The new ones are easy to service and repair. Their spare parts are cheap, available in the local market and are simple to replace.

- From 1980 until now, UNDP has contributed approximately $7.5 million to help **Mali** discover and develop its underground water reserves. UNDP with assistance from the United Nations Department of Technical Co-operation for Development has enabled the country to dig more than 3,000 productive wells. This achievement has brought water for household use and irrigation to thousands of families in arid rural areas. Most wells have been equipped with low-cost handpumps. The Government is now using hydrogeologists, geophysicists, mechanics and specialized labourers trained by project assistance. These technicians are continuing to find new water reserves throughout [illegible]

- The Asian Development Bank and the Government of **Bangladesh** have invested $50 million to improve the Ganges-Kobadak irrigation system. UNDP provides consulting services to guide and implement the Bank loan, training for the Bangladeshi engineers and financing for maintenance of the main pumps which draw water from the Ganges River. While the country has enough water during the rainy season, for three months of the year there is no rainfall. The current irrigation systems, wells and pumps are inadequate for the farmers who live far from the rivers. This massive project, designed to benefit 200,000 families, involves overhauling the pumps, improving the power supply and upgrading and maintaining existing canals. The project will enable farmers to grow an average of 2.4 crops per year rather than the 1.8 they average now.

Year In Review

For the first time in its history, UNDP passed the $1 billion mark in income, total contributions rose 17 per cent above 1985 levels. New pledges in national currencies showed an average increase of 6.6 per cent. This increase was further augmented because most currencies would convert to higher dollar amounts than in the previous year. Expenditures for the year showed an across-the-board improvement with a 20.5 per cent increase over 1985.

The largest regional share of spending was in Asia and the Pacific, followed by Africa, Latin America and the Caribbean and the Arab States. About 45 per cent of the total went for international experts; approximately 24.1 per cent was spent on equipment and around 12 per cent went for training.

Total UNDP expenditures in 1986 cover not only these direct field programmes but also the costs of UNDP programme planning, managment and co-ordination by 112 field offices and in New York, as well as project implementation services by 29 executing agencies. Including all these elements, 1986 annual expenditures amounted to $911.0 million.

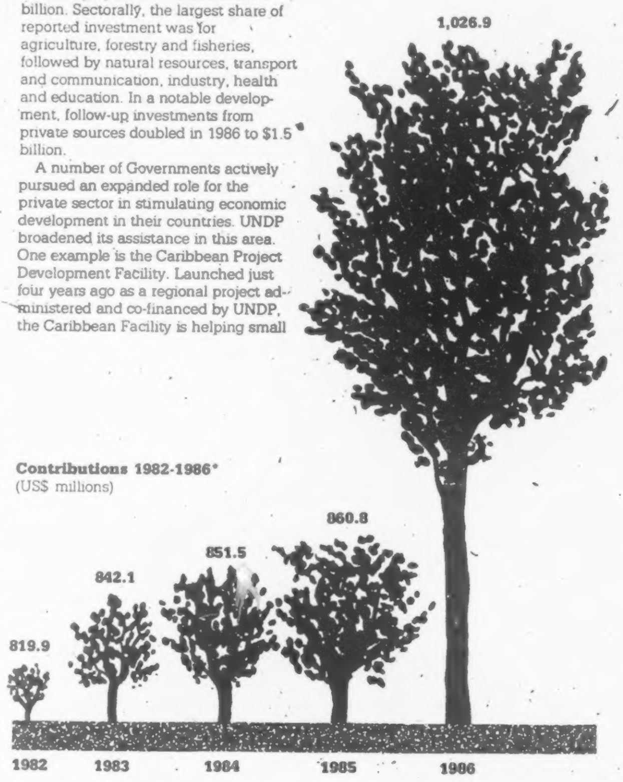
In aggregate terms, total income received by UNDP in 1986 for its main programme, trust funds under its administration, and to all cost-sharing arrangements amounted to $1,009 million.

The value of new projects approved in 1986 rose by 33 per cent compared with 1985, going from $349.05 million to $465.4 million. The total number of new approvals increased by 6.5 per cent, climbing from 1,436 the previous year to 1,530 in 1986.

Follow-Up Investment

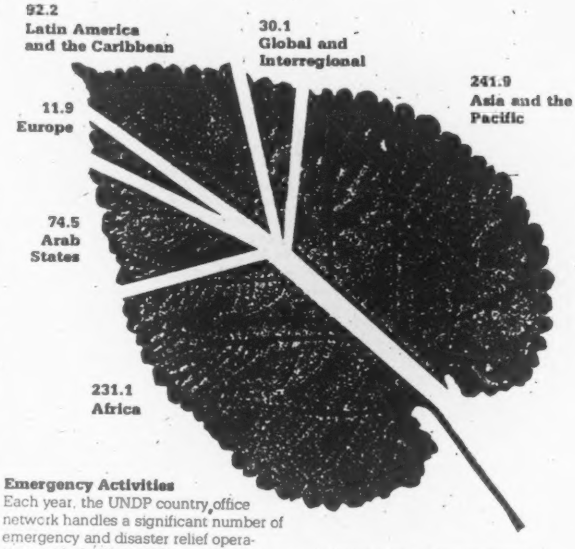
One measure of UNDP's impact is the follow-up capital investment that is generated as a result of UNDP-financed pre-investment work. In 1986, these investments came to $10.5 billion. Of this, commitments by national and international investors resulting from studies and plans prepared by UNDP-assisted projects accounted for $9.5 billion. Sectorally, the largest share of reported investment was for agriculture, forestry and fisheries, followed by natural resources, transport and communication, industry, health and education. In a notable development, follow-up investments from private sources doubled in 1986 to $1.5 billion.

A number of Governments actively pursued an expanded role for the private sector in stimulating economic development in their countries. UNDP broadened its assistance in this area. One example is the Caribbean Project Development Facility. Launched just four years ago as a regional project administered and co-financed by UNDP, the Caribbean Facility is helping small and medium-size businesses obtain start-up funding from private investors abroad. By the end of 1986, the Facility had completed the preparation of 58 projects in 17 Caribbean states. Loans and equity capital of more than $35 million were raised for 25 of these projects.


Contributions 1982-1986*
(US$ millions)

*Contributions Pledged to UNDP Core, UNDP-administered Funds, and Co-Financing

Expenditures by Region
(US$ millions)



UNDP is supporting a similar effort covering African countries. Operating out of Nairobi and Abidjan, the African Facility identifies and develops projects which will help African entrepreneurs to expand their business operations. Of particular interest to the Facility are projects costing between $500,000 and $5 million, with emphasis on agriculture and agro-industries. By the end of 1986, some 70 project proposals had been submitted for consideration.

New Programme Developments

- UNDP created a Division for Women in Development in 1986. It will help ensure that women, who represent half the human energy, creativity and productivity in the world, play a greater role in UNDP-supported activities. The contribution which women can make to development and the impact of development efforts on the lives of women are to be taken into account in all planning and programming of UNDP assistance.

- The UNDP partnership with the non-governmental organizations (NGOs) received fresh impetus in 1986 with the establishment of a new Division for Non-Governmental Organizations. The Division will explore ways in which UNDP, with its vast experience in development co-operation, its field network and its close ties to governments, can increase the impact of community-based participation of NGOs.

- To meet pressing needs for top-level technical and managerial advice, UNDP created the Short-Term Advisory Services (STAS). The programme matches developing country requests for technical and managerial expertise with highly skilled advisers from such sectors as agriculture, transport and industry. These advisers are made available on request from developing countries for short-term assignments at minimal cost. At the end of April 1987 STAS had completed 25 assignments in 13 countries.

Emergency Activities

Each year, the UNDP country office network handles a significant number of emergency and disaster relief operations with the United Nations Disaster Relief Organization (UNDRO) and other international agencies. During 1986, some 27 relief projects were approved. The following are examples of this vital assistance.

- Flooding in Bolivia destroyed houses, roads and agricultural production. UNDP provided $30,000 in emergency relief for blankets, cooking stoves, and transportation. The initial emergency allocation was followed up with another $500,000 for a housing rehabilitation and construction project.

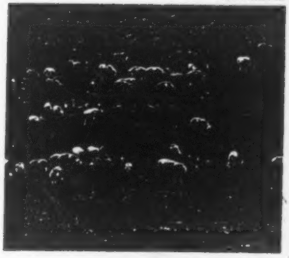
- When a devastating earthquake hit El Salvador, UNDP was on hand to assist in the management of the recovery. It allocated $50,000 to be used with funds from UNDRO for emergency repair of the drinking water, sewage systems and three hospitals. UNDP also supported an assessment of rehabilitation and reconstruction requirements. It will be providing resources for low-cost housing reconstruction, a seismic risk study and a pediatric hospital.

- A destructive cyclone whipped through the Solomon Islands, leaving much of the population without food or shelter. UNDP was instrumental in co-ordinating the response of the UN system. A disaster adviser was sent to the scene within 24 hours. UNDP came forward with an immediate grant of $50,000 to cover the costs of chainsaws and other tools to clear debris. A long-term rehabilitation plan, which will cost UNDP $1.1 million, will help prevent outbreaks of malaria, replace destroyed fishing equipment and reconstruct feeder roads.

Results: **Africa**

Badly needed rains boosted harvests in most of Africa. Changes in national economic and social policies in many countries offered hope that a prolonged decline in investment could be reversed. In 1986, every nation in the eastern and southern regions showed a rise in food production over 1985. Three countries—Kenya, Malawi and Zimbabwe—actually had exportable food surpluses. High population growth, however, continued to hinder the pace of recovery. Committed to repairing the damage created by natural disasters, Africa's nations are searching for long-term solutions for relief and rehabilitation. For its part, UNDP is promoting agriculture and stimulating private sector involvement. It also acts as a strong partner in tackling environmental threats which undermine Africa's long-range economic recovery and development.

John Isaac/UN



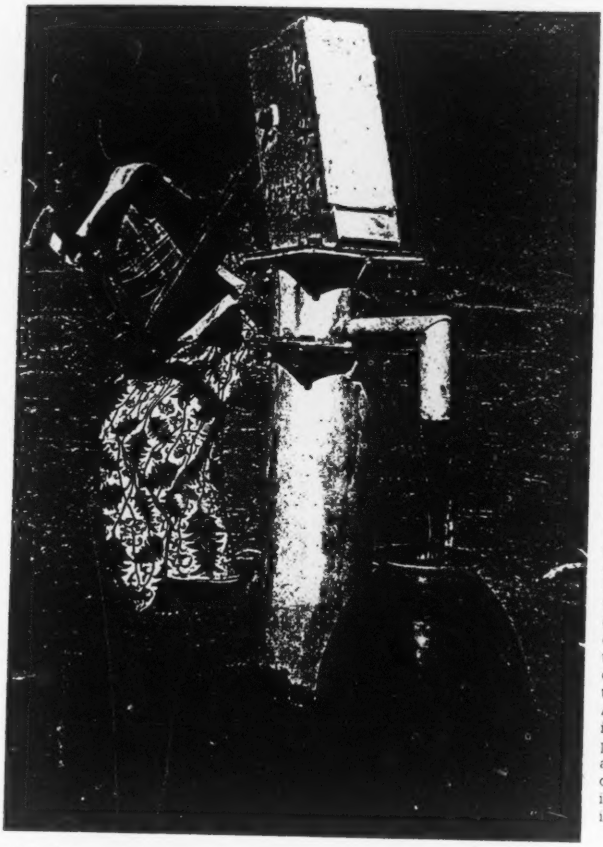
Upgraded pastures are increasing sheep herds in parts of Africa.

- Project North **Togo,** an ambitious and successful effort which ended in 1986, brought dramatic results to the famine-stricken country. Operating in the country's poorest, most densely populated region, the project's sweeping achievements included upgrading farm land, increasing seed production and storage facilities, building sheep and goat herds from zero to 18,000 head, and constructing new roads. Besides agricultural accomplishments, this UNDP/FAO project opened medical and social service centres and fostered numerous women's community groups.

- Nineteen donor nations, UNDF, FAO, WHO, and the World Bank rallied together in a fight against river blindness in seven West African nations. Caused by the bite of a tiny blackfly which introduces a parasite into the bloodstream, the disease affected more than a million people and robbed one in ten of sight. By 1986, however, spraying with environmentally harmless larvacides cleared more than 800,000 square kilometres of the blackfly. The successful project ensures that three million children born since the spraying began will be free of the disease. Refugees from the once-infested areas such as the Volta River Basin are returning to reclaim and redevelop lands they abandoned in fear.

A new type of insecticide is used to control the black fly which carries the parasite causing river blindness in West Africa.

Ray Witlin/UN



Carolyn Watson/UNICEF

Local initiative is helping to bring modern handpumps to villages in Niger.

- To feed its people, improve health conditions and protect against encroaching desertification, landlocked **Niger** uses improved water management. The country wants every village with 250 people or more to have at least one modern waterhole. By late 1986, the UNDP-assisted project was off to a strong start after drilling more than 600 bore-holes and equipping them with handpumps. Local initiative is a notable feature of the project. Every village must make a financial contribution to the effort and furnish building materials.

- Rapid population growth places immense pressures on housing. A large-scale national policy in **Zimbabwe** offers an innovative savings and loan system to provide housing for low-income groups. With UNDP/HABITAT assistance, the plan also offers self-help co-operatives through which homeowners receive on-the-job training in bricklaying, plumbing, carpentry and other building trades. Nearly 1,500 units have been completed with help from the United States Agency for International Development. Based on this pilot project, the Government is breaking ground for a massive construction programme.

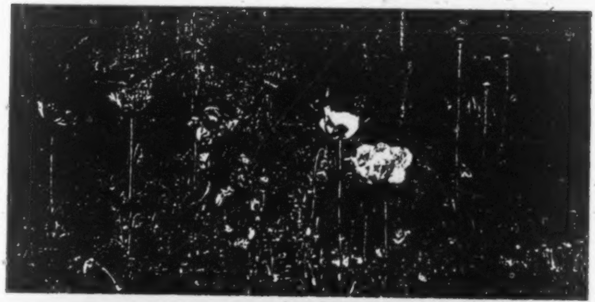
- Africa's rural communities hold vast economic potential. In **Malawi**, a UNDP/International Labour Organisation project teaches valuable business skills to village-level entrepreneurs. Before graduating from the Malawi Entrepreneurs Development Institute (MEDI), students must show they can earn money from business enterprises they have created. They receive course credits for launching profitable ventures and pass tests by earning money. Alumni are making a measurable mark in stimulating the local economy by providing employment opportunities and offering goods and services at affordable prices. Graduates are also showing quick repayment of start-up financing furnished by MEDI.

Results: **Asia and the Pacific**

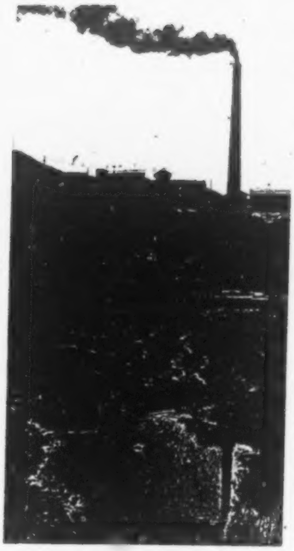
After a period of impressive recovery, economic growth for many nations of Asia and the Pacific slowed considerably during 1986. With a worldwide decline of commodity prices came a drop in demand for manufactured goods from such countries as Malaysia, the Philippines, Singapore and Thailand. To compensate for this fall in revenue, Governments looked to UNDP for expansion and diversification of exports, technology transfer and modernization of industry. UNDP also gave priority assistance to the region's agricultural development which remains the greatest single contributor to the Gross National Product of the area. UNDP continued to assist in harnessing all available resources for economic development.

▪ UNDP and the United Nations Fund for Drug Abuse Control initiated the first programme in the world to replace illegal opium crops with food crops that provide cash incomes. The **Thailand** project grew out of the Government's push to eradicate drug trafficking and stop opium production. The successful project, which began in 1973, is demonstrating that farmers can actually earn more by growing food crops than they can with opium. The project has supported testing of 155 crops. Eight proved commercially viable. Arabica coffee, red kidney beans and wheat have become key cash crops. Since the project began, more than 400 hectares of new coffee and 150 hectares of new fruit trees have been planted. Nearly 400 hectares of red kidney beans are now grown each year. As recently as four years ago, the hillsides of Mae San were covered with opium. Today, the fields are planted

As part of a national effort to eliminate drug trafficking, farmers in Thailand are encouraged to replace illegal opium crops (right) with more lucrative coffee crops. (below)



William Raiford/UNDP



Louise Gubb/UNDP

Fly-ash is an industrial waste product that can be turned into a valuable construction material.

with coffee bushes. A Hmong village in Monya harvested 260 hectares of opium in 1984. Last year, farmers harvested only 15 hectares. While the nation's farmers still grow opium, the 1986 yields of 15-30 tonnes is down sharply from the 150 tonne yields of the 1970's.

- **China** is transforming an environmental liability into an asset, with UNDP help. The country's coal-burning power stations churn out 40 million tonnes of fly ash yearly. Fly-ash pollutes the environment and causes lung damage. A two-phased UNIDO-executed project researched techniques for producing various grades of fly-ash and looked for industrial uses for the substance. When mixed with concrete, fly-ash can be used as a construction material. To date, buildings with 10 million square metres of floor space have been constructed with variations of the material. In fast-growing Shanghai, one quarter of all new homes have been built with the substance.

- Applied genetics is helping **Burma** develop new and better raw materials for agro-industry. A UNDP/FAO project has made significant progress towards improving cotton, jute and sugar-cane. High-quality germ-plasm for cotton demonstrated improved yields, higher ginning output and better fibre quality. A new pest-resistant strain of cotton was developed. It raised yields by as much as 80 per cent and lowered the need for insecticide spraying. New varieties of jute were tested, doubling yields.

- In the **Philippines,** three million carabaos play a vital role in the island nation's economy. They serve as draft animals, sources of protein and farm income producers. A UNDP/FAO project assists the Government with its carabao development programme by creating upgraded animal strains which offer more meat, milk and muscle power. To improve the gene pool, 23,500 doses of frozen semen were imported from India and Pakistan for distribution to more than 4,000 farmers. The impressive project results produced nearly 800 first-generation offspring, of which more than 600 were of superior quality. Through new artificial breeding techniques, average conception rates roughly tripled. Low-cost feeding systems were also developed using locally available crop residues.

Joseph Viesti/UNDP

New strains of carabaos in the Philippines offer more meat, milk and muscle power.

Improved cotton in Burma provides better fibre quality

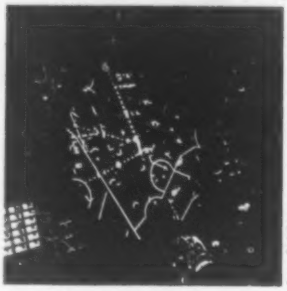
Results: **Latin America and the Caribbean**

Heavy debt burdens, elusive growth opportunities and curtailed national investment continued to trouble many countries in Latin America and the Caribbean. Some nations are designing new approaches to stabilize and restructure their economies in an adverse world atmosphere. UNDP is helping countries address their debt service problems. Efforts are being made to increase reserves of foreign exchange and develop new export industries. UNDP support in 1986 also centred on reversing rural decline, rehabilitating urban slums and promoting private investment.

- A UNDP/FAO project in **Haiti** offers proof that poverty need not be a permanent trap. In 1983, an epidemic of swine fever killed most of the country's pigs and contaminated ones were slaughtered. These animals were a major source of protein and reserve capital for the poor. The three-pronged UNDP project to help the farmers recover from this setback is revitalizing agricultural extension services, checking the ravenous rate of soil erosion and developing alternate sources of pig-feed. The island was also re-populated with imported pigs. Cap Haitien, an economically depressed area, now supports retail shops for animal-feed, medicines and agricultural tools. Nurseries were established for soil-holding plants which, when harvested, become superior animal fodder. New herds are thriving on innovative pig-feeding concentrates developed from sugar-cane and vegetable wastes. Farmers may buy these concentrates, along with veterinary medicines and small appliances at a reduced cost through the project's revolving fund

New herds of pigs in Haiti are thriving on innovative feed concentrates.

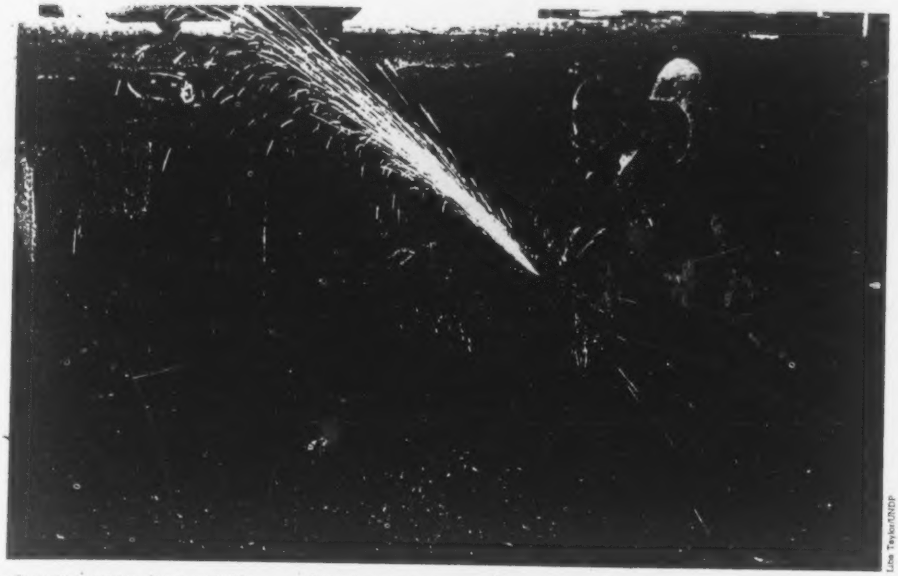
John Littlewood/UN



James Cook/Foto

Modern radar equipment improves the safety and efficiency of air transportation.

- Mountainous terrain creates obstacles for the construction and maintenance of roads and railways in **Peru**. Heavily reliant on air transport, the country approached UNDP and the International Civil Aviation Organization to formulate a National Air Navigation Master Plan. The project supported the creation of a training centre for electronic technicians and air traffic controllers. Modern radar equipment was installed at Lima airport which reduced landing delays. The country's airlines are now able to handle some 800,000 additional passengers and 18,000 more flights annually.



Libe Taylor/UNDP

Regional co-operation is helping Latin American nations develop and market new exports.

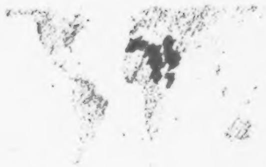
- In some countries, direct capital investment from abroad can offer a viable alternative to borrowing. In co-operation with the World Bank and the International Monetary Fund, UNDP carried out a comprehensive analysis of industries and management structures in **Belize.** The findings attracted foreign investments of $22 million to expand banana and citrus production, housing construction, shrimp mariculture and tourism. The project also provided assistance for negotiations with multinational corporations and helped establish the Government's Office of Economic Management to oversee all national development efforts.

Agricultural production, including banana crops, attracts foreign investment in Latin America.

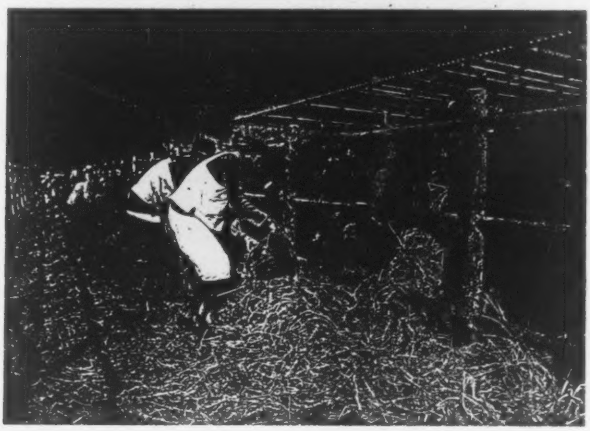
J. Frank/UN

- Latin American governments are banding together to deal with their debt problems. UNDP is working with the 13-member Caribbean Community (CARICOM) to provide technical assistance for confronting the region's financial setbacks. The organization's strength stems from pooling the diverse, widely scattered and limited resources of these island economies. UNDP is helping CARICOM develop and market export commodities, increase capital availability, and educate officials in ways to profit from multilateral trade negotiations. UNDP also assists the member countries in tax administration, health service management and information systems. A major CARICOM initiative, the creation of a regional pharmaceutical centre, is helping to cut costs of therapeutic drug imports.

Results: **The Arab States**



From oil-producing countries to vulnerable desert regions, the diversified composition of the 20 Arab States requires a wide range of development assistance. Faced with declining revenues, the oil-exporting countries must diversify their economic and industrial bases. In some of these countries, UNDP is promoting foreign investment. The middle-income states, while affected by reduced export income, look to UNDP for aid in transfers of technology and know-how. The region's least developed countries, reeling from the severe droughts, need UNDP help for rehabilitation, particularly in rural areas.



Marina Brodskaya/UNDP

High-nutrient feeding methods are doubling livestock growth rates in parts of Egypt.

The middle-income Arab States are seeking aid for transfers of technology and know-how.

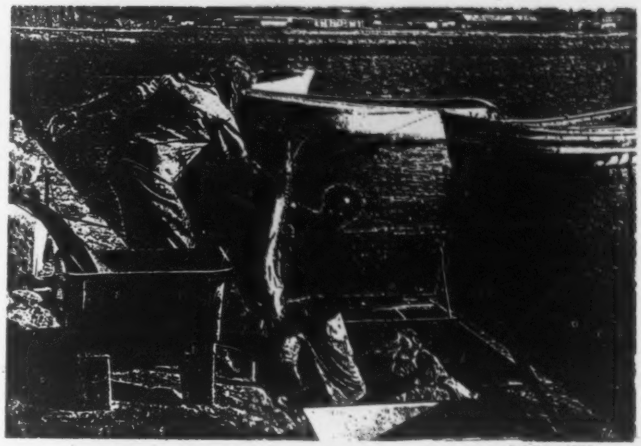
- With only six per cent of **Egypt's** land suitable for agriculture, new technology is necessary to make the most of scarce land. The Government is searching for low-cost, high-nutrient feeding methods for raising livestock. UNDP/FAO research pinpointed several modern approaches. The project introduced high quality feed concentrates that doubled previous animal growth rates. One of the feed concentrates is a liquid supplement made with essential vitamins and minerals that is mixed with molasses. A factory was built to produce this high-protein substance. The project also supported a new technique to enhance the nutritive value of straw by treating it with gaseous ammonia. Two distribution centres for the new feed supplements were established in Noubaria and Itai El Barud. About 750 tonnes of the high-protein molasses mixture and 6,500 tonnes of treated straw have been distributed to local farmers. Recognizing investment opportunities, the European Economic Community has committed $1.7 million for project expansion. UNDP contributed some $2.4 million between 1979-1986 to the beef industry development project in Egypt.

■ Saudi Arabia's development efforts have centred on reducing the nation's overwhelming dependence on crude oil exports. The government turned to UNDP and UNIDO to identify industrial development prospects, promote foreign investment and establish new technical and engineering services. The project evaluated investment and industrial potential in Riyadh, Dammam and Jeddah. It laid the groundwork for a joint Arab engineering project on the manufacture of vehicle axles. These services have helped the government evaluate new proposals for the domestic assembly of cars and pick-up trucks, and the development of petrochemical industries. Investments in Saudi Arabian industry, both public and private, have been stimulated by the Government's policies which now afford greater investment incentives. Annual industrial growth for non-oil industries in the country has averaged nearly 14.1 per cent over the past few years.

This steel foundry in Helwan, Egypt is part of the region's effort to diversify its economic and industrial base.

Bernard Pierre Wolff/UN

Somalia is tapping its immense reserves of fish, a valuable source of national revenue.



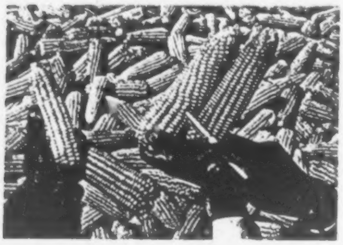
Ruth Massey/UNDP

■ Somalia's 3,300 kilometre coastline, with its rich reserves of fish, was a largely untapped source of revenue. Lack of capital, along with underdeveloped transport and communications systems hindered the growth of fisheries. A UNDP/FAO-assisted project, with help from UNCDF, is making enormous gains towards capitalizing on this valuable resource. The project involves buying boats and equipment, and opening up markets and credit facilities for fishing enterprises. A new Fishing and Training Community Centre offers jobs for 120 families. So far, fish catches have more than doubled, raising nutritional and health standards as well as incomes.

Global and Interregional

UNDP'S Division for Global and Interregional Projects fosters international co-operation for economic development and encourages access to the world pool of advanced scientific knowledge. These efforts help meet research, management and up-to-date technical needs in such areas as water supply and sanitation, tropical disease research, agriculture, energy, income and employment opportunities.

Research led to the planting of some six million hectares of high yield corn in Latin America, Asia and Africa.



UN

- Nearly 1,200 million people still lack safe water. UNDP, the World Bank and other donors are helping nations meet basic water and sanitation needs during the International Drinking Water Supply and Sanitation Decade. Water programmes are field testing 70 different handpumps in 18 developing countries. National teams supported by the project are monitoring the pumps, setting up repair systems, and fostering village handpump manufacturing.

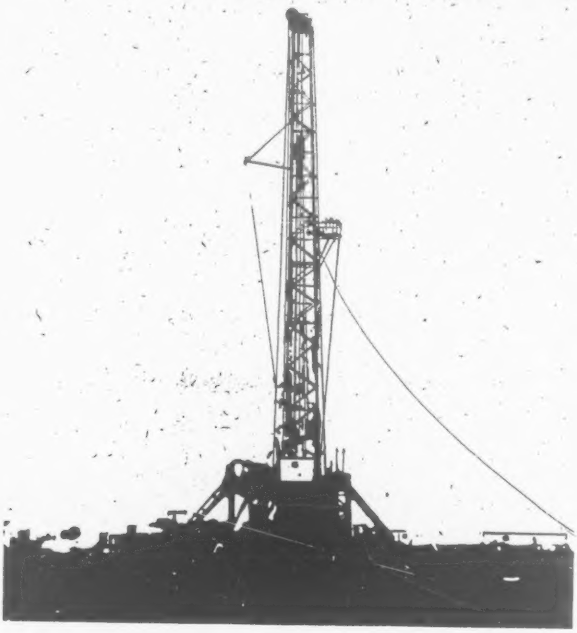
- In collaboration with the World Bank, the World Health Organization and other donors, UNDP is fighting tropical diseases that kill millions in the developing world. In 1986, the research and training in this area assisted more than 100 countries in their battle with malaria, schistosomiasis, also known as bilharzia, onchocerciasis or river blindness, African trypanosomiasis, or sleeping sickness, leishmaniasis, and leprosy. UNDP also supported a worldwide campaign against diarrhoeal diseases, the single largest killer of children in the developing world.

- Agricultural research commanded priority in 1986, accounting for 65 per cent of the global budget. The search for better food production and improved soil fertility is channelled largely through specialized centres of the Consultation Group for International Agricultural Research. The centres placed emphasis on increasing food production by raising yields and countering the effects of drought, disease and pests on crops and livestock. Attention was also given to enhancing soil fertility through biological nitrogen fixation and fertilizer technology. Research led to the planting of some six million hectares of high yielding maize varieties in Latin America, Asia and Africa. Several disease-resistant strains of potato have been planted in more than 20 countries. Over 15 nations have benefited from high-yielding disease-resistant field beans, an important protein source in Latin America.

UNDP

Global projects are helping nations meet basic water needs.

- The UNDP/World Bank Energy Sector Management Assistance Programme (ESMAP) searches for energy options in more than 40 developing countries. It examines household energy sources and promotes private investment for energy production. By seeking natural gas reserves and renewable energy technology, ESMAP finds opportunities for local energy production. ESMAP, the United Nations Development Fund for Women (UNIFEM) and UNSO collaborated in the distribution of 25,000 improved woodstoves in Niger. The more efficient steel stoves require 50 per cent less fuelwood than the traditional "three stone" fire.



Drilling for natural gas in Salah, Algeria.

- The dynamic Trickle Up Programme (TUP) stimulates small-scale businesses in rural and urban areas. TUP offers $100 grants to groups of five or more people who will commit at least 1,000 hours of their otherwise unemployed time to a business enterprise planned by themselves. They must reinvest at least 20 per cent of profits in the business. The enterprises run by TUP entrepreneurs include poultry raising, clothing manufacturing, the operation of food stores and bakeries, palm oil production, bee keeping and the making of shoes, baskets, hats and mosquito nets. A survey of 199 TUP operations made possible by UNDP funding shows a successful record. It cost TUP less than two cents for every hour of self-employment that was created by the programme. Each dollar of TUP money invested brought an average profit of $4.63 to the entrepreneurs.

The Trickle Up Programme encourages small-scale business development.

John Isaac/UN

Associated Funds

The United Nations Development Programme is the central funding and co-ordinating mechanism for technical co-operation by the entire UN development system. Seven associated programmes — each funded separately — provide specific services through the UNDP network.

- The United Nations Capital Development Fund provides small-scale capital assistance to promote socio-economic development. It places particular emphasis on early and direct benefits to low-income groups. One example of UNCDF support to the poorest nations is its assistance to the Bilma region of **Niger** where harsh desert climates know no mercy. The Fund helped raise rural income and increase efficiency of local co-operative businesses. New vehicles, a warehouse, garage workshops and retail outlets have fostered a substantial economic revival. In **Bhutan,** UNCDF is creating a nationwide agricultural credit scheme for landless farmers to buy crop and livestock-raising equipment. The Fund also offers financing for small farm improvement. Some 6,000 of the country's poorest farmers have received short-term loans through UNCDF.

- The UNDP Energy Office plays a catalytic role in finding financial resources for high priority energy projects. In 1986, it held two Photovoltaic Symposia and Information Workshops which brought technical experts together with government representatives at decision-making levels. Held in Nairobi, Kenya and Chiang-Mai, Thailand, the fora examined the cost and applicability of photovoltaics in such areas as health, water pumping, irrigation, and rural development.

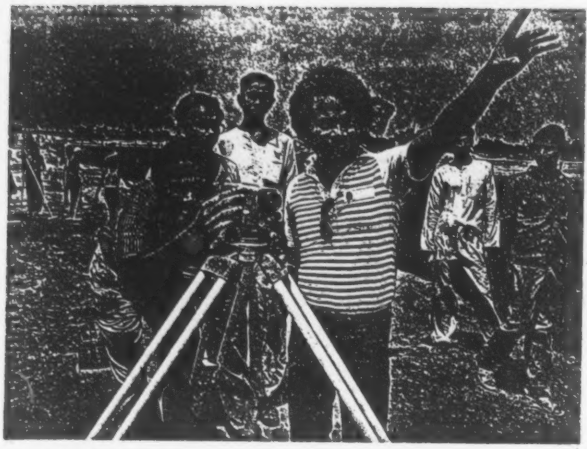
Oddbjorn Monsen/UN

UNCDF offers financing for farm equipment.

- The United-Nations Sudano-Sahelian Office is the only organization in the United Nations system specifically aimed at combatting drought and desertification. It assists the 22 countries across the Sudano-Sahelian belt of Africa in such areas as deforestation control, sand dune stabilization and rangeland management. UNSO efforts in **Somalia** helped stabilize more than 1,200 hectares of sand dunes. The project used a variety of vegetation to protect towns and villages from encroaching desert sands. Under its feeder roads programme, UNSO supports construction projects in **Burkina Faso, Cape Verde, Gambia, Niger** and **Senegal**. Feeder roads are essential for food and medical supply deliveries to rural areas during famines and other emergencies. As the return of rains in Africa shifted international assistance from famine relief to long-term recovery and rehabilitation, UNSO stepped up efforts

J C Constant/UNCDF

The UNDP Energy Office examines the use of photovoltaics in such areas as health, water pumping and irrigation.



Kevin Rubinski/UNDP

United Nations Volunteers provide a wide range of expertise around the globe.

for arid zone development. In **Ethiopia**, where forests dwindled from 40 per cent to less than three per cent of total land area since the turn of the century, UNSO expanded reforestation around the towns of Debre Birhan and Nazret. As a result, nearly all fuelwood needs in the region will be met by 1990.

▪ In 1986, the United Nations Revolving Fund for Natural Resources Exploration (UNRFNRE) pursued its objectives of assisting governments in high-risk explorations of natural resources and bringing results of previous discoveries to the stage of investment. In **Argentina,** where UNRFNRE discovered high-grade gold and silver deposits, the Government requested further help with detailing the extent of the deposits for potential investments. A Fund-supported evaluation in the **Congo** revealed that a phosphorite and crushed shell mixture could bring higher crop yields. In **Haiti**, an intensive drilling programme continued to outline boundaries of earlier gold discoveries. Geological mapping, geophysical surveys, tunnel clearance and more than 2,000 metres of drilling were conducted in a new gold, silver and zinc exploration project in **Honduras.**

▪ United Nations Volunteers (UNV) meet the demands for a wide range of low-cost expertise. In 1986, nearly 1,125 doctors, agronomists, engineers and others, from both industrialized and developing countries offered their skills around the globe. Slightly more than half of the volunteers worked in Africa. In **Comoros**, several UNV doctors helped operate medical centres and health programmes. Volunteers also participated in on-the-job training of nurses and midwives. In the **Central African Republic**, they trained science teachers. Volunteers served as engineers, architects and surveyors to construct 74 housing units in the **Yemen Arab Republic**. A UNV cartographer provided invaluable assistance in updating the National Atlas in **Jamaica**, while a water resources engineer taught others how to develop a computer model for managing river water.

▪ The United Nations Development Fund for Women promotes women's involvement in development activities. Its efforts have been directed almost entirely at very low income family situations in which women have traditionally played menial roles at a labouring level. UNIFEM projects have had an enormous impact for the good upon the lives of women in developing nations. In **Mexico**, a UNIFEM project for low-income women offers training, technology and credit for crop and livestock raising. By introducing modern equipment and methods for water supply, grain processing, and cooking, the project dramatically reduces time women spend on menial tasks.

▪ The United Nations Fund for Science and Technology Development (UNFSTD) helps developing countries make use of up-to-date science and technology to further economic development. In **Senegal**, for example, a UNFSTD project created a central information bank, equipped with microfilm and micro-computers, for all of the country's agricultural research. UNFSTD expanded the reach of the **Indonesian** Institute for Sciences by adding equipment for a wood and metal workshop, a food processing plant and a laboratory.

Kay Muldoon/UN

UNSO is combatting desertification by promoting more efficient fuelwood use.

Executing agencies of the United Nations Development Programme

United Nations

International Labour Organisation (ILO)

Food and Agriculture Organization of the United Nations (FAO)

United Nations Educational, Scientific and Cultural Organization (UNESCO)

World Health Organization (WHO)

International Civil Aviation Organization (ICAO)

World Meteorological Organization (WMO)

International Maritime Organization (IMO)

International Telecommunication Union (ITU)

International Atomic Energy Agency (IAEA)

United Nations Industrial Development Organization (UNIDO)

United Nations Conference on Trade and Development (UNCTAD)

Universal Postal Union (UPU)

World Bank

Inter-American Development Bank (IDB)

African Development Bank (AfDB)

Asian Development Bank (AsDB)

Arab Fund for Economic and Social Development (AFESD)

World Tourism Organization (WTO)

World Intellectual Property Organization (WIPO)

United Nations Centre for Human Settlements (HABITAT)

United Nations Centre on Transnational Corporations (UNCTC)

International Trade Centre (ITC)

Economic Commission for Africa (ECA)

Economic and Social Commission for Western Asia (ESCWA)

Economic and Social Commission for Asia and the Pacific (ESCAP)

Economic Commission for Latin America and the Caribbean (ECLAC)

Economic Commission for Europe (ECE)

Islamic Development Bank (IsDB)

Caribbean Development Bank (CDB)

Other participating organizations

United Nations Fund for Population Activities (UNFPA)

United Nations Children's Fund (UNICEF)

World Food Programme (WFP)

Office of the United Nations High Commissioner for Refugees (UNHCR)

International Fund for Agricultural Development (IFAD)

United Nations Environment Programme (UNEP)

Office of the United Nations Disaster Relief Co-ordinator (UNDRO)

United Nations Fund for Drug Abuse Control (UNFDAC)

United Nations University (UNU)

United Nations Department of International Economic and Social Affairs (DIESA)

UNDP Office for Projects Execution (UNDP/OPE)

UNDP-administered funds

United Nations Capital Development Fund (UNCDF)

United Nations Sudano-Sahelian Office (UNSO)

United Nations Volunteers (UNV)

United Nations Development Fund for Women (UNIFEM)

United Nations Fund for Science and Technology Development (UNFSTD)

United Nations Revolving Fund for Natural Resources Exploration (UNRFNRE)

Energy Account

Other Special-Purpose Funds

SENATOR KASTEN: Does the U.S. Government believe UNDP should have more, and are we pushing UNDP to hire them?

MR. GOODMAN: It should be noted that the environment has been a particular concern of UNDP Administrator Draper. While the U.S. Government has made no determination of whether or not UNDP should have more environmentally trained staff members, we do believe that UNDP staff need to be made more aware of the environmental impact of projects which it undertakes. Moreover, we have been exploring opportunities to encourage UNDP to strengthen its involvement in environment-oriented projects. The June 1988 Governing Council will consider the Report of the World Commission on Environment and Development. This consideration should result in guidance for UNDP on the issue of environment.

SENATOR KASTEN: Please provide a list of projects with significant environmental impacts (positive or negative) in which UNDP participated within the past two years, with a brief description of each project and its environmental impacts.

MR. GOODMAN: The following is a list of UNDP environment-oriented projects:

-- Sand Dune Encroachment/Morocco: UNDP and the Food and Agriculture Organization (FAO) have developed a program to protect date palm groves, Morocco's major crop, from sand dune encroachment.

-- Soil and Water Conservation Program/Ethiopia: UNDP and FAO are assisting the Government of Ethiopia to reverse erosion through a national soil and water conservation program. UNDP contributed more than $3 million to the effort in 1977-86 and expects to contribute another $4.5 million for technical assistance over the next five yers. Under the project, land has been terraced with stones and with new trees to protect steeper slopes. Small dams have been built to halt gully erosion.

-- Social Forestry Project/Thailand: To discourage poor farmers from using slash and burn raids to clear forested areas for agricultural and fuel wood, UNDP and FAO have undertaken a project to encourage substainable agriculture. UNDP has contributed $1 million. Under the project, farmers are offered 2,000 hectares of land for five years, provided they follow sound ecological practices. After that time, with Government approval, they can extend their land rights for life and pass them on to their children.

-- Sanitation Project/Haiti: UNDP has helped the Government of Haiti rehabilitate densely-populated slum areas of Port-au-Prince. The project has provided sidewalks, fire hydrants, and public water pipes. The project is improving health and sanitation conditions through better drainage disposal.

SENATOR KASTEN: All U.S. agencies, including USAID, are required to prepare environmental impact assessments before carrying out any action which might have significant environmental impacts. Does UNDP require that environmental impact assessments be prepared as part of the process of designing any project which might have a significant environmental impact?

MR. GOODMAN: Although we are unaware of any specific UNDP guidelines requiring environmental impact assessments, UNDP is making its staff more conscious of the need to take into account environmental impact when designing projects and is utilizing the expertise of the U.N. Environment Program (UNEP) when environmental impact studies are necessary.

I would mention, however, that UNDP projects are largely for technical assistance, i.e., funding for experts or training, with some limited equipment components. Although these types of projects can and do have environmental impact, it is on a different order of magnitude from the capital projects undertaken by A.I.D. and the multilateral development banks.

SENATOR KASTEN: Why does the United Nations Development Program continue to fund "development" projects in South Korea, Kuwait, Korea, Portugal, and Brunei, countries which are not exactly known for poverty?

MR. GOODMAN: Although participation in and access to UNDP's programs is universal in nature, the organization does not and should not provide grant technical assistance to countries that can afford to pay their own way. Thus, donors negotiated agreement that requires the better-off recipient countries to "graduate" or achieve net contributor status during the Fourth Programming Cycle if their per capita income in 1983 is $3,000 or above. The per capita GNP for South Korea, North Korea, and Portugal was below $3,000, according to World Bank statistics.

Several countries, including Israel, Iceland, Greece, and Kuwait, have permanently relinquished claim to an Indicative Planning Figure (IPF), i.e., a grant country program.

Many more of the advanced developing countries participate in cost-sharing arrangements whereby the recipient government contributes to the cost of the project. In many instances, this contribution is larger than that of UNDP. Contributions are usually in convertible currency, but payment in local currency is accepted to the extent where such funds can be used by UNDP locally.

UN SECURITY COUNCIL ON ISRAELI DEPORTATIONS

SENATOR KASTEN: Many of us on Capitol Hill were disappointed to see that the United States failed to veto resolutions in the Security Council criticizing Israel for its deportations policy. These resolutions were drafted by the PLO. Doesn't U.S. abstention constitute an endorsement of the PLO's position on this issue?

MR. GOODMAN: The UN Security Council adopted two resolutions on the subject of Israeli deportations in January. The first, Resolution 607, was adopted on January 5, 1988, with the U.S. voting in favor, and the second, 608, was adopted on January 14, with the U.S. abstaining. Both resolutions were sponsored by the current non-aligned members of the Council: Algeria, Argentina, Nepal, Senegal, Yugoslavia, and Zambia. On April 15, the U.S. vetoed a draft resolution on deportations, also sponsored by the non-aligned, and asked the Council to desist from repetitive, rhetorical exercises and draft resolutions which are not productive and only cut across the objective of finding a real way to peace in the Middle East. However, we reaffirmed our opposition in principle to deportations, and our position on the applicability of the Fourth Geneva Convention to the territories.

Our affirmative vote in the first case, and abstention in the second had nothing to do with the PLO's position on the issue of deportations from the Israeli-occupied West Bank and Gaza. The U.S. position that Israel's deportation of Palestinians is a violation of the Fourth Geneva Convention has been consistent since the occupation began and is based on the clear language of Article

49. That article explicitly prohibits "individual" not just mass forcible transfers. The prohibition applies "regardless of motive". The only exception to this absolute ban is a total or partial "evacuation ofa given area". This exception is not relevant to the issue of forcible expulsions of particular individuals. Moreover, evacuations can only be taken in limited circumstances and on a temporary basis. The authoritative Red Cross Commentary, published in 1958, gives as an example of the proper use of this exception the evacuation of an area because it is liable to be subject to intense bombing.

Moreover, we oppose the practice of deportation because we believe it exacerbates tensions and leads to further violence. We abstained on Resolution 608 because, as we stated after the vote, we believe that the repeated raising of the issue in the Council does not assist in the restoration of calm or addresses the problems contributing to the disturbances.

UNITED NATIONS DEVELOPMENT PROGRAM

FINANCIAL RETURN TO THE UNITED STATES FROM UNDP

SENATOR INOUYE: The U.N. Development Program purchases goods and services from American corporations and hires consultants and experts from the United States.

What has been the financial return to the United States from UNDP during the past five years and how is this figure calculated.

MR. GOODMAN: The financial return to the U.S. from UNDP during the past five years was: 1983 - 110.34 percent, 1984 - 93.56 percent, 1985 - 105.71 percent, 1986 - 133.01 percent, and 1987 - 190.42 percent. These figures are calculated by dividing the return value (i.e., UNDP's expenditures in the U.S. for experts and consultants, equipment ordered, subcontracts awarded, fellowships, percentage of UNDP's overhead to executing agencies in the U.S., salaries of UNDP professional staff who are U.S. citizens, and UNDP headquarters administrative costs) by the U.S. voluntary contribution to UNDP. See the attached charts prepared by UNDP for additional information.

COMPARISON OF RETURN VALUE TO VOLUNTARY CONTRIBUTIONS
(1983-1987)

1983	UNDP WORLDWIDE			UNITED STATES		
	number	million $	% of total	number	million $	% of Total
EXPERTS & CONSULTANTS	8400	303.6	57.2%	823	29.8	9.8%
EQUIPMENT ORDERED		105.4	19.9%		23.0	21.9%
SUB-CONTRACTS AWARDED		60.9	11.5%		13.0	21.4%
FELLOWSHIPS (Training)	10091	60.7	11.4%	1470	8.8	14.6%
OVERHEAD *					14.5	
UNDP PROF. STAFF					11.4	
UNDP/HQ ADMINISTRATIVE EXPENDITURE					53.2	
TOTAL		530.6	100.0%		153.7	
1984						
EXPERTS & CONSULTANTS	7813	277.4	55.1%	797	28.3	10.2%
EQUIPMENT ORDERED		110.8	22.0%		26.1	23.5%
SUB-CONTRACTS AWARDED		51.1	10.1%		9.5	18.7%
FELLOWSHIPS (Training)	10807	64.4	12.8%	1441	8.6	13.3%
OVERHEAD *					14.1	
UNDP PROF. STAFF					10.7	
UNDP/HQ ADMINISTRATIVE EXPENDITURE					51.1	
TOTAL		503.7	100.0%		148.5	
1985						
EXPERTS & CONSULTANTS	8208	275.4	49.9%	770	25.8	9.4%
EQUIPMENT ORDERED		135.6	24.6%		27.3	20.1%
SUB-CONTRACTS AWARDED		71.7	13.0%		4.6	6.4%
FELLOWSHIPS (Training)	13193	69.2	12.5%	1534	8.1	11.6%
OVERHEAD *					15.1	
UNDP PROF. STAFF					13.4	
UNDP/HQ ADMINISTRATIVE EXPENDITURE					76.4	
TOTAL		551.9	100.0%		170.6	
1986						
EXPERTS & CONSULTANTS	8969	310.3	48.5%	908	31.4	10.1%
EQUIPMENT ORDERED		157.9	24.7%		35.4	22.4%
SUB-CONTRACTS AWARDED		87.9	13.7%		12.3	14.0%
FELLOWSHIPS (Training)	12907	83.3	13.0%	1446	9.3	11.2%
OVERHEAD *					17.3	
UNDP PROF. STAFF					12.4	
UNDP/HQ ADMINISTRATIVE EXPENDITURE					63.6	
TOTAL		639.4	100.0%		181.6	
1987						
EXPERTS & CONSULTANTS	8417	363.6	55.6%	1056	** 45.6	12.5%
EQUIPMENT ORDERED		86.9	13.3%		32.6	37.5%
SUB-CONTRACTS AWARDED		71.0	10.9%		13.6	19.2%
FELLOWSHIPS (Training)	11656	132.6	20.3%	1287	14.6	11.0%
OVERHEAD *					17.6	
UNDP PROF. STAFF					13.9	
UNDP/HQ ADMINISTRATIVE EXPENDITURE					66.8	
TOTAL		654.1	100.00%		204.7	

* OVERHEAD TO EXEC. AGENCIES IN THE US (75%)
** ESTIMATED

SUMMARY OF RETURN VALUE

YEAR	RETURN VALUE ($MIL.)	VOL. CONTRIB. ($ MIL.)	% OF RV
1983	153.74	139.33	110.34%
1984	148.47	158.69	93.56%
1985	170.64	161.43	105.71%
1986	181.63	136.55	133.01%
1987	204.70	107.50	190.42%

RMU/APRIL 19

GENERAL QUESTIONS ON THE UNITED NATIONS

HABITAT

SENATOR INOUYE: Please provide a list of all projects which have been funded through this program, together with the location and amount expended on each project.

MR. GOODMAN: Attached is the 161-page Information Report on HABITAT's worldwide activities for 1987. The report lists all projects funded through HABITAT and includes their country location. HABITAT, however, does not publish information on the amount expended for each project.

SENATOR INOUYE: Please provide a list of all United States suppliers to the HABITAT program.

MR. GOODMAN: Below is a list of U.S. suppliers to the HABITAT program between 1986 and 1988.

Cooperative Housing Foundation, Washington, D.C.
Development Analysis & Programming, Inc., Washington, D.C.
Research Triangle Institute, North Carolina
The Urban Institute, Washington, D.C.
Fels Center of Government, Philadelphia, Pennsylvania
University of Texas, Arlington, Texas
Eric Niels Peterson & Associates, Alexandria, Virginia
Planning & Development Collaborative International, Washington, D.C.

SENATOR INOUYE: Please provide a list of all outside United States contractors, consultants, individuals or interests which have received remuneration from HABITAT funds.

MR. GOODMAN: HABITAT's Headquarters in Nairobi, Kenya has informed the U.S. Permanent Representative that other than the information provided above, it considers information on the contract's of individuals, contractors, and consultants to be confidential and prefers not to provide such information.

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF HON. RICHARD E. BISSELL, ASSISTANT ADMINISTRATOR FOR PROGRAM AND POLICY COORDINATION, AGENCY FOR INTERNATIONAL DEVELOPMENT

BUDGET REQUEST

Senator INOUYE. The fiscal year 1989 AID congressional presentation states that U.S. support or the International Fund for Agricultural Development reflects the administration's continuing commitment to programs that directly benefit needy people in developing countries.

In order to look into that statement, I would like to call upon the Honorable Richard Bissell, the Assistant Administrator for Program and Policy Coordination of AID.

I welcome you, sir.

Mr. BISSELL. Thank you very much, Senator.

Senator INOUYE. Do you have a statement you would like to present?

Mr. BISSELL. I have submitted a statement for the record which I will not read to you.

Senator INOUYE. Without objection, that statement will be made part of the record.

Mr. BISSELL. I would like to make a few points which focus on a couple of central issues regarding IFAD.

The administration is requesting $2.5 million for this fund in fiscal year 1989. This amount will complete funding of the $80 million pledge made by the United States several years ago for the second replenishment of IFAD.

IFAD SECOND REPLENISHMENT

I just returned last night from the opening round of negotiations for the third replenishment and would like to discuss these events with you in today's questions and answers.

The third replenishment request would begin in the fiscal year 1990 budget, by our estimate.

As you know, IFAD grew out of the World Food Conference in 1974, and to my view, has become a truly unique actor in the international scene. It has attempted to reach the poorest, particularly in rural areas, and has become remarkably successful in doing so. It also has a relatively unique structure in terms of sharing of the financial burden between the OECD countries and the OPEC countries in a ratio of 60/40, respectively. In the course of this last replenishment, the OECD group contributed an additional $300 million to IFAD's special fund for

Africa, in recognition of the emergency in Africa—particularly among the poor farmer sectors.

The International Fund for Agricultural Development does much of its own project identification and preparation, but as a fund, rather than a bank, it delegates project administration to other institutions such as the World Bank and other multilateral institutions.

Our sense is that IFAD has carved out a special niche, and is doing its job. It is now 10 years old. It has a good, solid record over 10 years. It has shown an ability to learn from its mistakes as well as its successes, and its second decade should be even more promising in delivering assistance to poor farmers.

I cite in my statement a number of specific projects which I think are particularly interesting. IFAD develops 25 to 30 new projects a year, with the objective of reaching farmers especially the poorest, through a variety of mechanisms including technical assistance, credit programs, reforestation projects, and a wide range of other interventions.

COMMITTEE ON EVALUATION

One notable development in the last year which should be of interest to this subcommittee is that the United States proposed that IFAD create within its executive board a Committee on Evaluation. We thought this was particularly timely for a small institution which is now 10 years old. With a number of IFAD's projects reaching completion, it is time to examine the effects of its projects, whether these projects will have a sustainable impact on development and whether it is accomplishing the purposes laid out by the member-governments. The Board created the new evaluation committee last December and its first official meeting will be held later this month. The papers are already created and have been reviewed with regard to a set of projects.

We are also adding two positions to IFAD's staff to conduct evaluations and strengthen its ability to build upon its own experiences.

My sense is that the organization is doing very well in this respect.

If I could make a few comments with regard to the discussions in Geneva last week. IFAD faces a funding dilemma because the funding burden has been shared between OECD countries and OPEC countries. Indeed, much of our willingness to accept a relatively low second replenishment figure was based upon an expectation that the price of oil would recover, and of course, it has not.

The OPEC countries outside of the several richest, that is, Kuwait and Saudi Arabia, feel severely strapped with regard to maintaining historic levels of support for other countries' economic development. They have reduced their own bilateral and regional aid programs considerably. As a result, indications are that these replenishment negotiations could be among the most difficult we have experienced.

LDC CATEGORY

On the other hand, in discussions over the last year there has emerged sensitivity to the fact that there are a number of countries in the third category, that is, LDCs, which are doing extraordinarily well. You have countries like South Korea, still in the third category of the LDCs, that are in a position to provide assistance in agricultural development. Brazil, Argentina, India and the People's Republic of China have a great deal of experience in this area, and they have in fact expressed a willingness to begin to financially support IFAD in a more significant way. As a result, we hope that the replenishment being negotiated now will not be as severely disabled by low oil prices and the perception of the OPEC countries that their capacity to contribute is severely limited.

The discussions of the last several days resulted in a considerable degree of optimism. That brought about a shared sense that the unique character of IFAD needs to be preserved and that each of the three categories will do something very significant in supporting IFAD's continuation. I speak not only of IFAD's continuation in principle, which is relatively easy to do, but at an estimated level of approximately $600 million to $750 million. Such a level would allow IFAD to maintain its growth as an institution and not become marginalized in the world of development institutions.

In sum, I was greatly cheered by the discussions of the last several days. We will be meeting again in late June to determine where we are now in the negotiations. The position of the United States, which was shared by a number of other countries, was that we need to wrap this up by the end of the year. The second replenishment negotiations dragged on for 2 years and were unduly painful and relatively unproductive in the end. We therefore seek a timely replenishment negotiation during the course of this year to keep the institution on a solid financial path.

I am happy to take your questions.

[The statement follows:]

STATEMENT OF

RICHARD E. BISSELL
ASSISTANT ADMINISTRATOR FOR PROGRAM AND POLICY COORDINATION
AGENCY FOR INTERNATIONAL DEVELOPMENT

I am pleased to be here to testify about an international assistance agency which has helped some of the world's poorest people: the International Fund for Agricultural Development (IFAD). The Administration is requesting $2.5 million for IFAD in FY 1989. This amount will complete funding of the $80 million pledge made by the U.S. in 1986 under IFAD's second replenishment. I have just returned from the opening round of the negotiations for IFAD's third replenishment. If the negotiations are successful, the first U.S. contribution under the third replenishment will be requested in the FY 1990 budget.

IFAD grew out of the World Food Conference in 1974 in Rome. With strong U.S. support, it was established in 1977 as a specialized U.N. agency. It is the only multilateral financial institution focused exclusively on small farmers and the landless poor. For these unfortunates of the world who normally live in isolated rural areas of the poorest nations, IFAD introduces long term solutions to the problems of hunger, malnutrition and unemployment. IFAD's governing structure and method of operation are also unique among multilateral financial institutions. Power on its executive board and governing council is equally shared among three groups of countries: the Organization of Economic Cooperation and Development (OECD) group, the Organization of Petroleum Exporting Countries (OPEC) group and the group of developing nations. All three groups fund IFAD with over 95 percent of the contributions coming from the OECD and OPEC in a ratio of approximately 60:40. In addition, the OECD group has contributed over $300 million to a special program for Africa.

IFAD develops, funds and evaluates projects, but in keeping with its status as a fund rather than a bank, it delegates project administration (contracting, disbursement, supervision, etc.) to institutions with larger administrative overheads, i.e. the World Bank. In just 10 years, IFAD has financed more than 200 projects in developing countries that, when fully implemented, will boost food production by more than 22 million tons a year. More than 15 million families are benefitting already from IFAD's activities.

IFAD was initially funded in 1977 at slightly over $1 billion for a three year period. Pledges to IFAD's first and second replenishments added $1 billion and $488 million respectively. Negotiations have just started for IFAD's third replenishment.

PERFORMANCE

During its first decade, IFAD has carved out, and some would say dominated, a niche in the development business. It is identified with the rural poor and landless. By concentrating its intellectual and financial resources on a well defined and needy group of people, it has been able to develop innovative and effective approaches to problems of food production and nutrition. For example, IFAD has shown that it is possible to make tiny performance based loans to people without land and often without their own homes to serve as collateral. Such loans allow people to start businesses which can turn dependancy into hope. These poor borrowers are as responsible in repaying their loans as are their wealthier and more urban countrymen who have easier access to loans for consumption and industrial investment.

IFAD has incorporated into its strategy the knowledge that in most poor rural areas women are the chief producers, distributors and preparers of subsistance food. Increasing their productivity, knowledge and status can increase food production, improve nutrition and increase employment. For example, male agricultural extension workers normally deal with male heads of households when much of the farming, input procurement and food handling is done by women. IFAD in its projects tries to enhance the role of women throughout the food system.

IFAD also realizes that because poor rural people, for example, in the Sahel or Andean altiplano, interact so intimately with their natural environment, economic development and environmental protection must go hand in hand. IFAD is designing a project in the environmentally degraded Fouta Djalon massif in Guinea. The project will benefit 67,000 people with average farm holdings of 1.5 hectares and per capita incomes below $200. One element of the project will introduce water control, improved technology and greater resource intensity to 500 hectares of valley bottoms. Greater production in the valleys will relieve food crop pressure on the eroded slopes which can be devoted to pasture and forestry.

IFAD's clients often have incomes of less than $400 a year and go to bed hungry. Sound economic policies and a free private sector can convert the willingness of these people to work into higher incomes. Relevant here are policies facilitating land titling and renting, real interest rates on small savings deposits, free rural markets for food and labor, freedom of entry and competition for family enterprises, and the like.

Through its projects and dealings with host country officials, IFAD constantly tries to influence such policies to allow the maximum economic contribution of the rural poor. For example, in Madagascar, under the Highland Rice Project, understandings were reached with the government to prevent rice trading regulations from interfering with small holder marketing channels. The Smallholder Maize Project in Zaire provides credit to private truck owners. The presence of many trucks with flexible schedules in the growing areas provides at least two benefits to the small maize farmer. The farmer has less need to invest in expensive on-farm storage and the availability of transport tends to raise the farm gate price in relation to the urban price of maize.

By concentrating its concessional resources, IFAD has been able to develop innovative and practical approaches to assist the rural poor. By virtue of its tripartite structure, co-financing and co-implementation, IFAD, unlike many small targeted institutions, has been able to widely disseminate the lessons of its experience. Each project is thoroughly reviewed by IFAD's executive board, two thirds of whose members are from OPEC and the non-oil producing developing countries. Board discussions give developing country members an opportunity to share experience, take responsibility and improve IFAD and non-IFAD programs in their own countries. As the developing countries contribute more to IFAD, a U.S. objective in the Replenishment III negotiations, this should increase their incentive to back discipline and policy reform in countries receiving IFAD's assistance.

In early 1987, the U.S. proposed that IFAD create within its executive board a committee on evaluation. The evaluation of operations and programs is especially important in a small institution, working in a difficult sector world wide, trying innovative approaches and delegating implementation to others. With nine years of experience and more projects completed, the U.S. considered it time to increase the status of evaluation. In December, 1987 the board created the committee and at its first meeting in April 1988 the committee will review evaluations of an irrigation project in India, an integrated agricultural development project in Cape Verde and several credit projects. The U.S. also agreed to the addition of two positions for evaluation on IFAD's staff.

In summary, IFAD with its own and leveraged funds is helping very poor rural people all over the world. This help is producing long term solutions to problems of food production, nutrition, unemployment, dessertification, soil erosion and deforestation. Lessons from this targeted experience are fed into IFAD's operations and made available to other institutions. The U.S. considers IFAD a well run, effective and needed international organization. I hope we can count on the continuing support of Congress to make IFAD even stronger and more effective.

CATEGORIES OF MEMBERSHIP

Senator INOUYE. Who or what organization makes the determination that a country is a less developed country?

Mr. BISSELL. In IFAD?

Senator INOUYE. Or in any organization.

IFAD makes that determination?

Mr. BISSELL. Well, it comes about in several ways. In IFAD Category 1 consists of the OECD countries, Category 2 consists of the members of OPEC and all other member governments are in Category 3—the less developed countries.

Senator INOUYE. Everybody else is.

Mr. BISSELL. Yes. That is why we face relatively anomalous membership situations where the Republic of Korea, for example, is still considered a member of Category 3. We are looking at several countries among the so-called LDCs, particularly those which have become surplus countries, to become more significant contributors to IFAD's financial resources.

But I might add, the United Nations and other organizations have other ways of defining categories.

Senator INOUYE. Where would South Korea be with UNDP?

Mr. BISSELL. I believe the UNDP classifies South Korea as a "developing country," as opposed to an LDC or LLDC.

PROSPECTIVE FUNDING

Senator INOUYE. If you can advise us, about how much would we anticipate in fiscal year 1990 for IFAD?

Mr. BISSELL. That is impossible to say at this time because we are considering a number of potential funding structures for IFAD. It could range from as little as what we have contributed to the second replenishment, that is, in the $25 million per annum range, to as high as $35 million to $40 million per year.

It is my hope to keep it in the $30 million to $35 million annual range, quite frankly.

I say that with some regret because I think the organization should grow more rapidly, but I also think it is important to maintain the burdensharing character of IFAD. The administration has not yet taken a position on a prospective contribution level for IFAD's third replenishment.

Senator INOUYE. Will the negotiations be completed in time for submission of a request by this present administration or the next administration?

Mr. BISSELL. It would be in the fiscal year 1990 request. It is my earnest desire to see these negotiations completed, as I say, before the end of this year. The request presumably would come in next year's congressional presentation and therefore under the next administration.

Senator INOUYE. Senator Kasten?

BURDENSHARING

Senator KASTEN. What is the percentage of United States versus OPEC countries in terms of contributions overall, just roughly?

Mr. BISSELL. In the course of the second replenishment, we created a ratio of 60 percent from the OECD countries and 40 percent from the OPEC countries, and out of that overall total, the United States is contributing about 17 percent.

Senator KASTEN. When this organization was envisioned, was it to be primarily, maybe even two-thirds or more funded from the OPEC countries?

Mr. BISSELL. That is a period in history for which I was not present. I have heard that references were made at the time of IFAD's founding to a 50/50 ratio.

Senator KASTEN. At least.

Mr. BISSELL. As I say, this is all hearsay on my part. With each succeeding replenishment, wide fluctuations in oil prices made OPEC–OECD burdensharing a difficult issue in replenishment negotiations. The second replenishment, for that reason, dragged on for 2 years as the United States attempted to maintain a 58/42 ratio, eventually settling for a 60/40 ratio between OECD and OPEC.

Senator KASTEN. In the negotiations that you have been taking part in, is there now a desire for them to further reduce their share, or are they working with the 60/40 ratio, and you are just trying to determine how much everybody is going to put in the pot?

Mr. BISSELL. On the part of OPEC?

Senator KASTEN. Yes.

Mr. Bissell. OPEC, of course, would like to adjust it significantly. They suggest ratios in the range of 80/20 or 70/30. Clearly, in view of depressed oil prices, Middle East wars, and other drains on their resources, OPEC believes they need to change that ratio.

The position which we tabled at the negotiations was to maintain the 60/40 ratio, as an expression of IFAD's unique character through burdensharing between the OECD countries and OPEC. However, there are an awful lot of negotiators who don't focus on the unique character of IFAD, but instead focus on issues involving ability to pay. I discouraged the idea of shifting ratios, but this solution was advocated not only among the OPEC countries but also among the other OECD countries.

This issue will not be a simple aspect of the negotiations, but it is one that I feel very strongly about. I believe that a slide towards a voluntary contribution process would not be helpful.

Senator KASTEN. Well, I am not sure where in the State Department you were at the time in A.I.D., but at one point the subcommittee zeroed out IFAD on this particular issue because we felt that the ratios were inappropriate, and at that time we went back and looked at the legislative history of IFAD and took speeches that were made on the floor of the Senate by a number of their proponents saying that the key here was that the OPEC countries desired to make a contribution and did not want to do it through existing development organizations. They wanted to do it their own way, they wanted their own office, they wanted to have their own headquarters in Rome, and that we ought to have this in order to get them participating rather than fold these projects in with several existing organizations.

The legislative history indicated that everyone recognized that this was a duplicative agency. And notwithstanding that fact that it was recognized, it was felt that this was the best way to get these OPEC countries involved in the process because this is the way that they sought to do it.

So it would seem to me that our position ought to be that these percentages do not continue to slip and slide because it was the hope that they would in fact be going the other way.

I also think that all of us are familiar with the concerns that this subcommittee has had with IFAD in the past, and a large number of those problems have been worked out. So I think that generally speaking, we are looking upon the organization itself with favor. And they have obviously done a lot of wonderful work with unique kinds of projects. But this funding thing cannot slide.

Mr. BISSELL. I appreciate your comment, and we will certainly keep that in mind as we proceed through the rest of the negotiations.

One comment I might make is that the organization has become less OPEC in character. If one looks at OPEC development organizations, and there are several of them that support regional development, they have relatively little regard for the issue of continuity. Development is a long term process and you need a relatively steady state of funding and in-house expertise to have an effect and make those investments sustainable. Rapid changes in pledge levels from year to year or replenishment to replenishment is counter-productive for any development institution, even though it results from our struggle to keep OPEC contributions in balance with the OECD countries.

We are always struggling with this dilemma of making IFAD viable—having entered into a partnership with a group of countries which are subject to such pronounced fluctuations in their own levels of revenue.

Senator INOUYE. Senator Nickles?

U.S. CONTRIBUTION LEVEL

Senator NICKLES. IFAD since its inception was what? How much money is it altogether, $2 billion?

Mr. BISSELL. It is almost $2 billion now, yes.

Senator NICKLES. And the United States total contribution has been about $500 million, 20 percent of that?

Mr. BISSELL. U.S. total contribution is $459 million.

Senator NICKLES. Out of about $2.1 billion or something?

Mr. BISSELL. $2.4 billion.

Senator NICKLES. So it is close to 20 percent?

Mr. BISSELL. Something like that—18.5 to 19 percent.

Senator NICKLES. 18.5 percent?

And it is your intention on the third replenishment to keep it in that same ratio?

Mr. BISSELL. As of now, I would like to. If for some reason we run into serious problems with OPEC contributions, it is possible that share could drop a little bit, but we would still maintain our preeminent place in the organization, even if it drops a little bit.

Senator NICKLES. You are talking about a drop in total dollars or drop in percentage?

Mr. BISSELL. In percentage.

Senator NICKLES. If OPEC contributions were reduced, my concern is that you would see a significant increase in the U.S. percentage, which I would have some concerns about.

Mr. BISSELL. I would not expect that to be the outcome. What I have stated in the discussions is that the burdensharing ratio between the OECD countries and the OPEC countries needs to be maintained. If in fact the OPEC contribution were to drop, we would face a lower level of replenishment overall. There is not a fixed target that the replenishment has to reach

TARGETING ASSISTANCE

Senator NICKLES. I also read your comments where you said most of the loans were going to the poor countries and farmers.

Are those loans actually going to those farmers, or do they go to the governments themselves?

Mr. BISSELL. The loans are implemented in the areas with the poorest farmers. It is sometimes a little bit anomalous. There are countries that are considered middle income countries but have no ability to reach the poorest farmers within their countries. IFAD will create a project that will in fact reach those very poorest farmers.

In part, IFAD's ability to reach the small farmer is because over the last 10 years they have identified and developed strong working relationships with local-level institutions which provide technical assistance and rural credit, which better enables them to actually go out and reach those farmers.

Senator NICKLES. They would be making loans to the farmers, the farmers therefore could buy their fertilizer, seeds and equipment?

Mr. BISSELL. It is a very labor intensive process which is why it is very interesting to examine the way in which IFAD implements its projects. It is a challenge which A.I.D. has struggled with for some years. We have to use a lot of intermediary institutions, such as PVOs and others, in our efforts to reach those at the very end of the income chain or those who are most needy.

Senator NICKLES. Thank you.

Senator INOUYE. I would like to thank Mr. Goodman and Mr. Bissell for their presence and assistance this morning.

SUBMITTED QUESTIONS

The subcommittee has additional questions which we will submit for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR INOUYE

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)

U.S. FY 1989 CONTRIBUTION

SENATOR INOUYE: The FY 1989 AID congressional presentation states that "U.S. support for IFAD reflects the Administration's continuing commitment to programs that directly benefit needy people in developing countries."

In light of this pledge of a "continuing commitment" to the program, why has the Administration requested only $2.5 million in fiscal year funding when the level for fiscal year 1988 is $30 million?

MR. BISSELL: The Administration's FY 1989 request of $2.5 million represents the last payment against our commitment to the second replenishment. Since negotiations for the third replenishment have just started, we are unable to project an anticipated U.S. contribution level for the third replenishment. If the negotiations conclude as hoped this fall, the first U.S. contribution to the third replenishment will be reflected in in the FY 1990 budget.

IFAD CO-FINANCING

SENATOR INOUYE: IFAD is primarily a facilitating and co-financing institution. Yet, I understand that just over two-thirds of its portfolio reflects co-financing with other multilateral and bilateral institutions.

What has the organization done to encourage increased co-financing arrangements?

MR. BISSELL: IFAD strives to add funding from multilateral, bilateral and recipient country budgets to its projects. Dispite the difficulty of joining programs with different timing and design criteria, IFAD has by far the best record for co-financing among the multilateral banks. During 1978-82, IFAD contributed only 26 percent of the total funding in its projects. IFAD's leverage increased during the 1983-87 period when its share dropped to 22 percent. The fact that it is able to solicit the energies of other donors to over third-quarters of its portfolio means that it is spreading its impact well beyond the reach of its own funds.

IFAD SPECIAL PROGRAM FOR AFRICA
IFAD SPECIAL PROGRAM FUNDING

SENATOR INOUYE: In addition to IFAD's traditional development efforts, in 1986 the Fund launched a Special Program for Sub-Saharan countries affected by drought and desertification. I understand that this special program seeks to generate an additional $300 million in voluntary contributions for a four-year (1986-1989) effort to assist low-income food deficit African countries suffering from the long-term effects of drought and desertification.

What success has the IFAD Special Program for Africa had in securing the additional $300 million in voluntary contributions?

MR. BISSELL: In February 1988, pledges to the Special Program reached $300 million. The three largest contributors were Belgium

($38 million) France ($28 million) and Italy ($26 million). The U.S. contributed $10 million in FY 1987.

SENATOR INOUYE: What tangible success has the IFAD Special Program for Africa had in reducing or reversing the effects of drought and desertification in Africa?

MR. BISSELL: It is too early to report on the tangible effects of Special Program projects because most activities are in the design or start-up phase or only mid-way through implementation. However, the two following examples typify what these projects are trying to do. One component of the Special Country Program in Niger will support social and agricultural practices to maintain the quality of 2500 hectares of arable land and rehabilitate 500 hectares of degraded land. The Guinea-Bissau Rural Incentives Program targets small holders with incomes below $180 per year in a country with large-scale food imports. The project will engage the government in a review of market incentives for food producers, particularly rice farmers. It will provide farmers with tools and fertilizer and help them form input and output marketing associations. Finally, the project will provide technical assistance to the government to help it soften the impact of the structural adjustment program on the small holder sector.

IFAD SECOND REPLENISHMENT

SENATOR INOUYE: I understand that IFAD's second replenishment (1985-1987) was not agreed to until January, 1986, when a $460 million level of replenishment was subscribed to by the contributing members. Disagreement among the member states on their share allotments led to the establishment of a 36-member high level intergovernmental group to explore a number of possible solutions to IFAD's funding problems.

What were the conclusions reached by this intergovernmental group regarding IFAD funding?

MR. BISSELL: The intergovernmental group identified and considered many options to put IFAD on a more stable and adequate financial base. These included borrowing from capital markets, hardening loan terms, establishing special funds, receiving non-interest bearing loans from member countries and providing incentives to increase contributions from the recipients of IFAD's assistance.

Many of these options were ultimately rejected because they would result in significant changes to IFAD's operations or programs. All participants agreed that the fundamental character of this institution should be preserved and protected under any proposed funding variations. One of the recommendations that was supported and is being pursued in the replenishment III negotiations calls for a more than one to one matching of developing country contributions to IFAD by IFAD's developed country members.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

THIRD REPLENISHMENT

SENATOR HATFIELD: Mr. Bissell, I know that you've just returned from the first consultation on the third replenishment of IFAD in Geneva. Based on those negotiations, do you have an estimated figure for the Third Replenishment?

Can you give us an idea of the Administration's timetable for the replenishment?

MR. BISSELL: At the replenishment consultation, most members agreed that we should strive for a three year replenishment of $750 million. If the U.S. maintained its past percentage contribution of 17 percent, this would mean a U.S. contribution of $128 million over three years or $43 million per year. If we reduced our percentage, other developed countries might raise theirs to achieve the $750 replenishment target. It was generally accepted that $600 million would be a minimum level. At this level our 17 percent would mean $102 million over 3 years and $34 million per year. Thus our yearly contribution to the third replenishment might be within the range of $34-43 million, although this could be changed by a number of factors. This compares to annual U.S. commitment levels of $67 million to IFAD's initial capitalization, $60 million to the first replenishment and $26.3 million to IFAD's second replenishment.

We hope that the third replenishment will be completed by the end of September 1988.

SUBCOMMITTEE RECESS

Senator INOUYE. The subcommittee will now stand in recess until 10 a.m., Tuesday, April 26. At that time we will receive testimony from the Honorable Alan Woods, Administrator of AID.

[Whereupon, at 11:13 a.m., Thursday, April 14, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, April 26, 1988.]

LIST OF WITNESSES AND PREPARED STATEMENTS

Page

Baker, Hon. James A., III, Secretary of the Treasury
Prepared statement 12

Bissell, Hon. Richard E., Assistant Administrator for Program and Policy Coordination
Prepared statement 376

Conrow, James W., Deputy Assistant Secretary for Developing Nations

Malpass, David, Deputy Assistant Secretary for Developing Nations
Prepared statement 81

Williamson, Richard S., Assistant Secretary of State for International Organization Affairs
Prepared statement 165

SUBJECT INDEX

AGENCY FOR INTERNATIONAL DEVELOPMENT

Page

Bissell, Hon. Richard E., Assistant Administrator for Program and Policy Coordination
  Prepared statement....376
Budget Request....373
Burdensharing....381
Categories of Membership....380
Committee on Evaluation....374
Hatfield, Hon. Mark O., U.S. Senator from Oregon:
  Questions submitted for Mr. Bissell....387
IFAD Second Replenishment....373
Inouye, Hon. Daniel K., U.S. Senator from Hawaii:
  Questions submitted for Mr. Bissell....385
LDC Category....375
Prospective Funding....381
Targeting Assistance....384
U.S. Contribution Level....381

DEPARTMENT OF STATE
International Organization Affairs

Page

Absence of Key Witnesses....177
Afghanistan:
  U.S. Peacekeeping Role....181
African Countries:
  Addressing Needs....182
Attitude of U.N. Group....184
Budget Process Reforms....185
Budget Request....178
Budget Request Increase....188
Committee for Program and Coordination....185
Committee of Trustee Grants....189
Congressional Representatives at UNDP Meetings....191
Global Requirements of Account....179
Goodman, Hon. Dennis, Deputy Assistant Secretary....164
Hiring Practices....181
IAEA:
  Increase....184
  Involvement in Chernobyl....190
IFAD Reduction....183

Inouye, Hon. Daniel K., U.S. Senator from Hawaii:
    Opening Remarks.....................................163
    Questions submitted to Mr. Goodman..................197
Kasten, Hon. Robert W., U.S. Senator from Wisconsin:
    Questions submitted to Mr. Goodman..................336
Multilateral System, U.S. Expertise.....................180
Peacekeeping Operations.................................181
Program Breakdown of Request............................178
Secondment Problem......................................187
Southern Africa:
    Education and Training Program......................188
U.N. Convention on Terrorism............................194
U.N. Development Fund for Women.........................184
U.N. Organizations:
    Evaluating Work.....................................183
U.N. Voting Practices...................................194
UNDP:
    Congressional Representatives at Meetings...........191
    Increased Contributions.............................182
    Programs in Communist Countries.....................191
UNEP..195
UNICEF Budget Reduction.................................183
United Nations:
    U.S. Arrears..180
    U.S. Personnel......................................180
U.S. Support in U.N. Votes..............................195

DEPARTMENT OF TREASURY

Office of the Secretary

Page
ADB, Wider Country Participation in the................. 50
Baker, Hon. James A, III, Secretary of the Treasury
    Prepared statement.................................. 12
Conrow, James W., Deputy Assistant Secretary for
  Developing Nations
D'Amato, Hon. Alfonse, U.S. Senator from New York:
    Prepared statement.................................. 43
Debt Strategy: A Progress Report........................ 9
Debtor Nation Attitudes................................. 10
Decertification... 46
DeConcini, Hon. Dennis, U.S. Senator from Arizona:
    Questions submitted to Secretary Baker.............. 62
Eighth Replenishment of IDA............................. 8
Enforcement of Drug Laws................................ 37
FMS Debt Refinancing Proposal........................... 5
FMS Debt Reform Measure................................. 3
Fiscal Year 1989 Budget Proposals....................... 7
Harkin, Hon. Tom, U.S. Senator from Iowa:

    Questions submitted to Secretary Baker.............. 66
Hearing Procedure.. 2
IDA:
    U.S. Funding Shortfalls to......................49, 50
IDB:
    Administration Changes............................. 24
    Health Insurance Claims............................ 42
    Need for Reforms................................... 24
    New Headquarters................................... 41
    Reforms in... 42
    Voting Procedures.................................. 25
IFC, U.S. Funding Shortfall to the....................... 51
Informal Consultation Process............................ 40
Inouye, Hon. Daniel K., U.S. Senator from Hawaii:
    Opening statement................................... 1
    Questions submitted to Secretary Baker.............. 53
Inter-American Development Bank.......................... 23
Japan:
    U.S. Trade with.................................... 47
Kasten, Hon. Robert W., U.S. Senator from Wisconsin:
    Prepared statement.................................. 4
    Questions submitted to Secretary Baker.............. 68
    Questions submitted to Deputy Secretary McPherson.... 72
Noncompliance with Drug Legislation...................... 45
MDB Funding for 1989...................................... 7
MDB Loans for Agriculture................................ 40
MDB Loans to Parastatal Corporations..................... 41
MDB Treatment of Indigenous People....................... 48
MDB Treatment of Wetlands................................ 49
Mexico:
    World Bank Steel Loan.............................. 39
Paid-In Capital Arrears Funding.......................... 24
Panama, U.S. Role in Economy............................. 51
Percentage of U.S. Contribution to Bank.................. 24
Reallocating Foreign Operations Funding to State Programs. 37
Subcommittee Alliance..................................... 2
Transfer of Coast Guard to Treasury Department........... 44
U.S. Influence in International Financial Institutions.... 41
World Bank and Regional MDB Environmental Lending
  Practices.. 10
World Bank Forestry Projects............................. 48
World Bank General Capital Increase...................... 50
World Bank Loans.. 8

Deputy Assistant Secretary for Developing Nations

Page

ADB Staffing and Procurement Policies.................... 88
African Development Bank and Fund........................ 78
Asian Development Bank................................... 87
Asian Development Bank and Fund.......................... 77

Caribbean, Growth Slowdown.................................. 91
DeConcini, Hon. Dennis, U.S. Senator from Arizona:
    Questions submitted to Mr. Malpass..................126
Environmental Concerns Over Brazilian Road Projects........ 93
IDB:
    Concern with Americas.................................. 95
    Donor Voting Rights.................................... 90
    Environmental Staffing................................. 96
    Replenishment......................................77, 90
Inouye, Hon. Daniel K., U.S. Senator from Hawaii:
    Opening statement...................................... 75
    Questions submitted to Mr. Malpass..................... 99
Kasten, Hon. Robert W., U.S. Senator from Wisconsin:
    Questions submitted to Mr. Malpass..................129
Japanese Activity in Bank.................................. 89
Latin America, Growth Slowdown............................. 91
MDB:
    Affecting Operations and Policies...................... 76
    Environmental Reorganization........................... 92
    U.S. Participation in and Policy Toward................ 76
MIGA... 79
Malpass, David, Deputy Assistant Secretary for Developing Nations
    Prepared statement..................................... 81
Monitoring Environmental Performance....................... 94
Necessary Requirement for all Funding...................... 87
Philippines, ADB Assistance to............................. 88
Poloroneste Project.. 96
Staffing Participation by Americans........................ 89
Structural Adjustment Lending.............................. 91
Taiwan... 97
Taiwan Designation in ADB.................................. 98
World Bank General Capital Increase........................ 79